



Nation's Business

The Business Advocate Magazine

June 1982

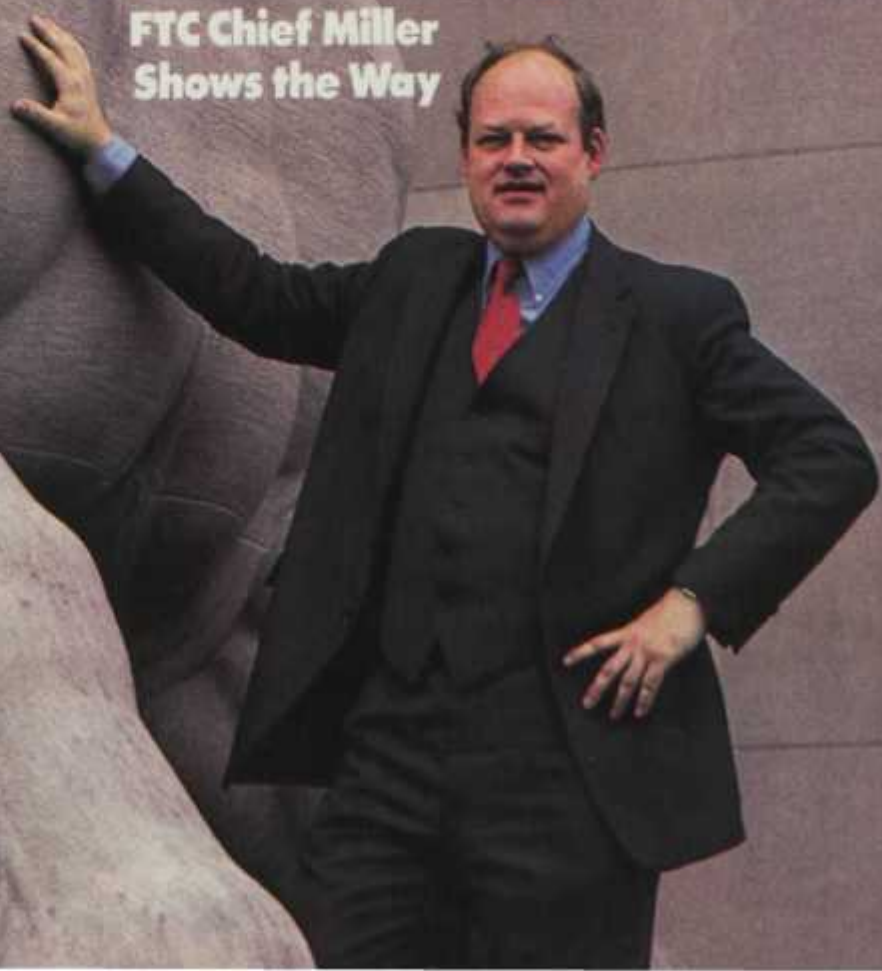
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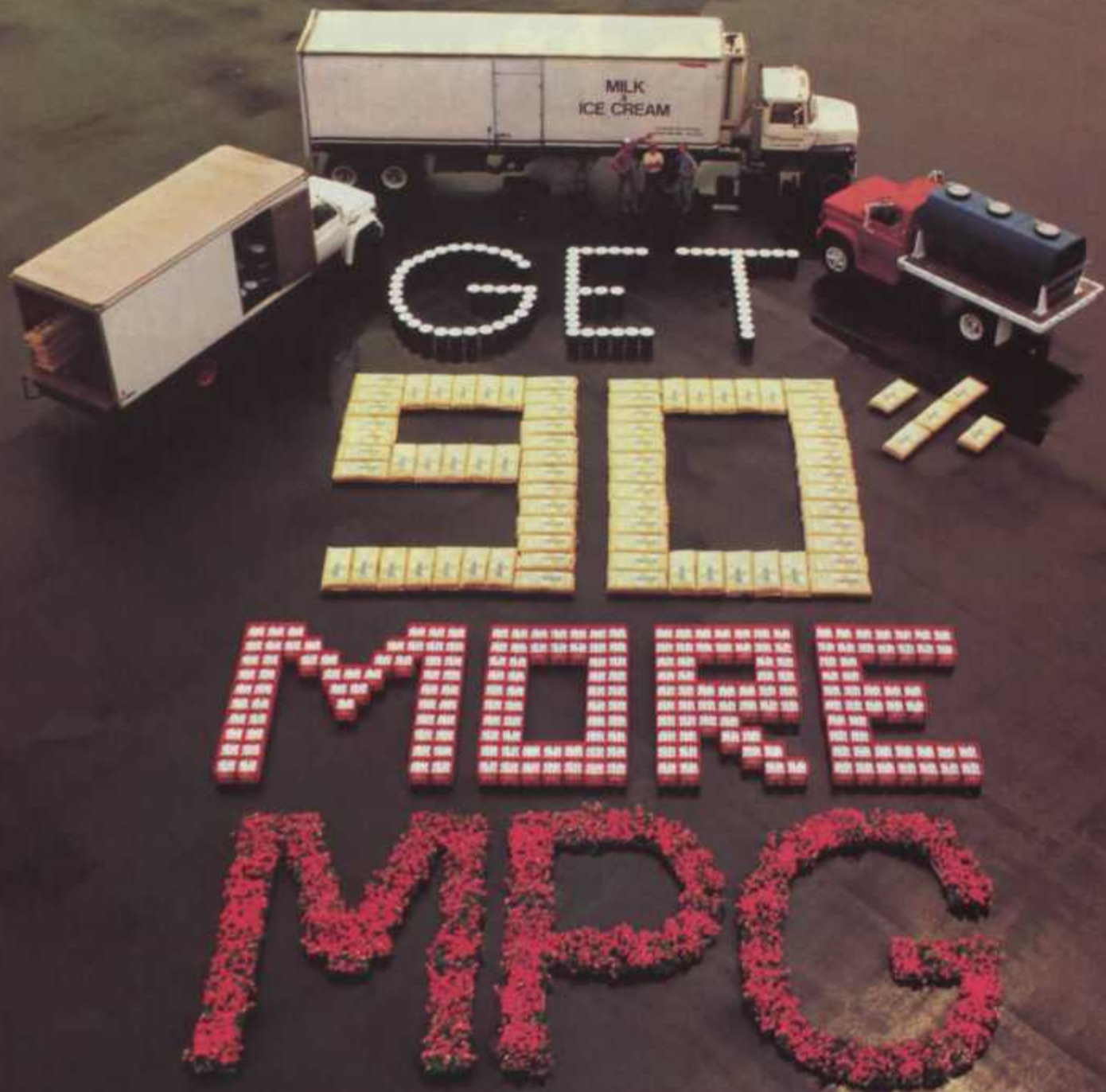
Good News on IRAs

**Outlook for the
Conservative
Coalition**

Reining in the Regulators

**FTC Chief Miller
Shows the Way**





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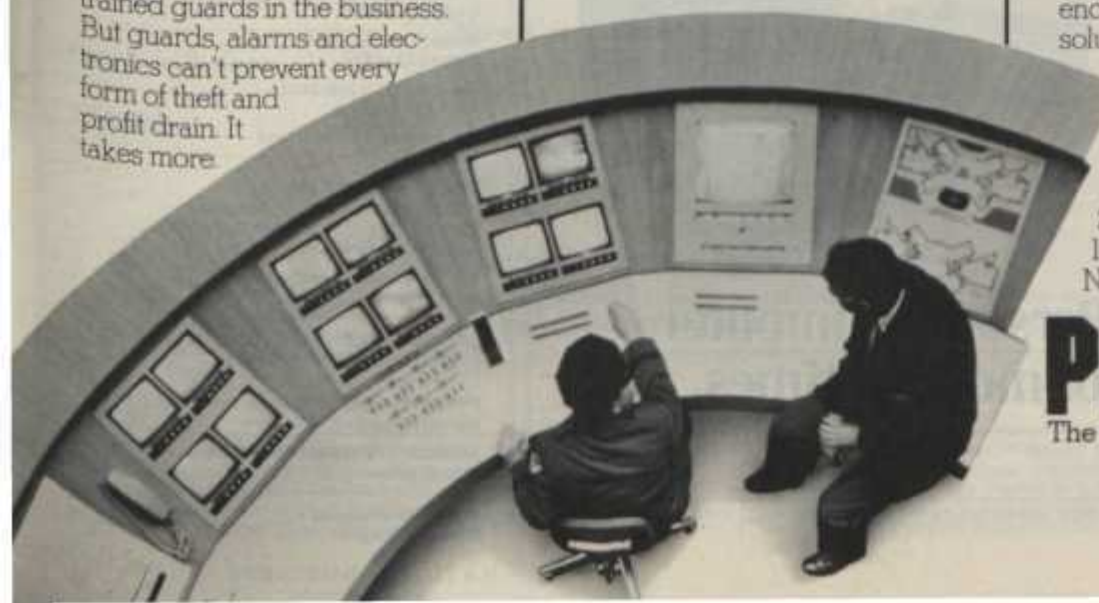


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Nation's Business



Regulatory Relief

James C. Miller's efforts to make the FTC a horse of a different color are an indication of what to expect at other agencies in the Reagan deregulatory drive. Miller is seeking basic changes.

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Ebbing Industry

An uncaring government. High costs. Unfair foreign competition. Those are among the reasons why we are in danger of losing a precious national asset, our merchant marine and shipyards.

34

Challenged

Paul Thayer's stuffed lion, bagged on safari in Africa, is one testimonial to his ability to do the unusual. Another is his record as a corporate leader. Now he is facing an unusual challenge.

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Allies or Foes?

The outcome of Washington fiscal battles hinges in large part on how much the Boll Weevils still cotton to Ronald Reagan. Will the conservative alliance hold up under election-year stresses?

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Business says government can enforce clean air standards without stunting economic growth. One day soon, we may finally have the requisite legislation.

IRAs Are Off to a Running Start

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Good news for an economy that needs capital: Millions of Americans have begun Individual Retirement Accounts, and many more are expected to do the same.

Joining the War on Drug Abuse

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Numerous companies find that programs to help employees fight drug, alcohol and emotional problems are well worth investing in. The returns are high.

New Conquests for the Computer

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Small firms are joining large firms in the rush to computerize. "Now we get answers when we want them," says one businessman. Here is how it is done.

Prestige for American Porcelain

84

The type of porcelain that draws oohs and ahs from art lovers once came only from abroad. The thriving company that Helen Boehm runs has changed all that.

The Lure of Fly Casting

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As a dedicated flycaster approvingly notes, "Someone once said that it isn't that fishing is so important. It's just that all other pursuits of man are so trivial."

Cover photo: Ken Garrett—Woodfin Camp.
Photos this page (from left): Ken Garrett—
Woodfin Camp; Mickey Pfleger—Picture
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39	28	40	28
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WASHINGTON LETTER

► **BUDGET OUTLOOK?** Here's how some Washington insiders are sizing it up: Congress has already postponed tough decision on Social Security funding. Tax increase hot potato was tossed to Senate Finance and House Ways and Means committees. They will be unable to put together package of tax hikes acceptable to majority of both chambers. So no budget for fiscal 1983--which starts October 1--until after fall elections. Whole mess may then be cleaned up in lame-duck session.

► **PROSPECT OF LATE BUDGET** is not all bad from business viewpoint. If economy continues to improve before elections--as expected--conservative coalition would be encouraged. Also, deficits wouldn't look as threatening. Result would be less pressure for big tax increases. Lame-duck session might even be willing to control soaring costs of federal entitlement programs, including Social Security.

► **CARIBBEAN BASIN INITIATIVE** proposed by President Reagan to spur economic development in that region has run into trouble in House of Representatives. Prospects for enactment along lines of original Reagan plan now appear slim. A provision to permit duty-free imports of products from countries ringing the Caribbean is being opposed by unions and some domestic industries that would be affected. House Ways and Means Subcommittee on trade has voted to take several products out of duty-free category. Initiative's proposal on more foreign aid to region has encountered opposition in House Foreign Affairs Committee. There, members debate Reagan call for aid to El Salvador and political implications of stepped-up aid to other

countries while U.S. economy is down. Republican-controlled Senate, which might be expected to be more sympathetic to plan, is tied up on fiscal issues.

► **IMMIGRATION and Naturalization Service** has unwittingly provided support to critics of proposed law on illegal immigration. INS made highly publicized raids on business places to demonstrate that illegal aliens were holding jobs while many Americans were unemployed. Many workers seized, however, were American citizens with Hispanic surnames. Opponents of proposed new law see strong possibility of similar problem from provisions that would require employers to determine citizenship status of job applicants, penalize companies that hired noncitizens illegally in U.S. Critics, including such groups as the Mexican American Legal Defense and Educational Fund, say employers might try to assure compliance with law by avoiding hiring of anyone with Hispanic name, including citizens.

► **NEW YORK STATE'S** struggle to redraw congressional district lines because of a sharp reduction in its U.S. House contingent spotlights extent to which longtime political power centers in North continue to lose Washington clout. New York now has 39 seats in House but is losing five as result of population shifts shown by 1980 census. New total of 34 seats is long way from peak of 45 that New York had from the 1930s into the 1950s, when downturn began. In 1970, census showed California had become most populous state, and its congressional delegation became the biggest. Political power of South and West has since continued to grow, largely at expense of North.

► REMOVING SOCIAL SECURITY from federal budget--as suggested by congressional Republicans--is producing strange political combinations. Some liberals see divorce as way to protect program from deficit-cutting moves, while some conservatives see it as means to head off creeping subsidization from general revenues. Some Democrats say real GOP motive is to remove issue from 1982 election. Economists say effect on nation's finances will be same, whether Social Security is on- or off-budget. Alice Rivlin, head of Congressional Budget Office, opposes concept, saying it is important for Congress to see effect on economy of all federal revenues and spending combined. That's why Social Security trust funds--which were originally off-budget--were put in unified budget in fiscal 1969. Administration projections for fiscal 1983 put Social Security outlays at \$173.5 billion, or about 23 percent of total outlays.

► IF SOCIAL SECURITY program were removed from unified federal budget, would it then be out of reach of constitutional amendment requiring balanced budget, now being considered in both houses of Congress? Absolutely not, says Steve Markman, chief counsel of Senate Judiciary Subcommittee on Constitution. "Without question" it would still be covered.

► EXCUSE often given for deferring action on Social Security funding problems is that such action should await report of National Commission on Social Security Reform, due by end of year. That may be weak reed to clutch. Last meeting of bipartisan commission broke up in partisan bickering.

► BALANCED BUDGET amendment to U.S. Constitution gets faint praise from Paul Volcker, Federal Reserve chairman. In recent testimony before House Judiciary Committee, he applauded "serious efforts ... to establish firmer fiscal discipline" but said he is not "personally satisfied that the proposal, as it stands, is fully workable. "He

also warned against using amendment as "a kind of substitute or surrogate for the action needed, here and now, to deal with the pressing current situation."

► THERE MAY BE A MESSAGE here for Washington: New book on Proposition 13 tax cut in California finds that "taxpayers got \$30 billion in tax cuts without a decline in public services" and that private sector job growth in state doubled. Further, "government revenues did not visibly weaken" because "thousands of new workers paid income, sales and property taxes." Book is "The Tax Revolt," written by Alvin Rabushka and Pauline Ryan and published by Hoover Institution Press, Stanford, Calif. 94305.

► GOOD NEWS ON JOBS: Labor Department study of job opportunities in 250 occupations predicts strong growth through rest of 1980s. Most openings will come in white-collar areas, but even blue-collar jobs--hard hit by recession--are expected to increase by 5 million to 8 million.

► MAY UNION PROHIBIT use of campaign funds from nonunion sources in union leadership contests? Interesting question is now before Supreme Court. At issue is steelworkers' union rule barring contributions. Union dissidents complain that incumbent officers are nearly impossible to unseat without outside support. (Employer contributions are barred by law.) Rejection of such rules would encourage leadership challenges by activists who say officers have lost touch with members.

► NO MORE cost-of-living figures for four-person families from Bureau of Labor Statistics. BLS says data for program are now 20 years old and there is no money in federal budget to update them. Last figures released, for autumn 1981, showed that hypothetical family would have needed \$15,323 a year for lower standard of living, \$25,407 for moderate standard and \$38,060 for higher level. Nothing to do now but go back to making comparisons with Joneses.

AMERICAN WORKERS NEED HEALTHY ELECTRIC UTILITIES

By Robert A. Georgine

President, Building and Construction Trades Department, AFL-CIO



No one has a greater stake in the financial health of the nation's electric utility industry than Americans who work for a living.

There is scarcely a job today that is not somehow dependent upon electricity. More important, economic growth — the source of tomorrow's jobs — requires continued dependable supplies of electricity at reasonable cost.

Huge Investment Needed

Electric utilities must spend well over \$300 billion in the remaining years of this decade if they are to convert from high-cost petroleum fuels, replace aging, inefficient plants and meet national demand growth.

I am told that a substantial portion of that enormous sum apparently will have to be provided by outside investors — individual savers and pools of money which often represent workers' pension and insurance programs. To attract that much and that kind of investment, utilities obviously must be able to compete with other potential investments.

This means care must be exercised to assure that the regulatory

policies and practices of some states or agencies do not sap the financial strength of electric utilities.

Utilities must be financially strong in order to make the investment necessary to power the industrial revitalization the United States needs if we are to produce the jobs that are absolutely essential to bring about our immediate economic recovery and subsequent growth.

Industry Requires Power

Industry strongly considers the availability and dependability of electricity in its decisions to locate new or to expand existing plants. Communities which cannot assure reliable, abundant power over the long term, therefore, will lose jobs and tax revenues. Indeed, we are already seeing some signs of this on a regional basis.

We as a nation must compete with other countries for industrial development.

The lure of low-cost, dependable power abroad is a strong one, particularly for electricity-intensive industries with international markets. These industries are, for the

most part, the basic ones that provide vast employment opportunities and are tremendously important to our national security.

National Security Threat

Nor should our national security be threatened by a dependence on energy supplied principally by a foreign country or group of countries.

In addition, high-growth industries, such as electronic data processing and information services, rely on constant, reliable supplies of electricity.

Neither the industries nor the individuals of our nation can long sustain the dislocation brought about by brownouts, blackouts or power rationing that would result from insufficient or unreliable generating capacity.

There is a direct relationship among sufficient power, meaningful employment and job opportunities, as well as between developing our own sources of energy and assuring our independence.

Robert A. Georgine

This is one of a series of messages sponsored by the Edison Electric Institute, representing the investor-owned utilities that deliver 77% of the nation's electricity.

Participating independent authorities are not paid for these messages, but present them because they believe the issue is of critical national significance. EEI welcomes your comments.

Edison Electric Institute

The association of electric companies

1111 19th Street, N.W., Room 716, Washington, D.C. 20036

Self-Discipline and Self-Reliance

Re: James J. Kilpatrick's April column, "How Do We Get Out?"

Since the '30s I have been in a state of alarm over the rise in prices, the size of the national debt, consumer credit growth, mortgage debt growth, etc. But now I wonder whether we are not making a terrible error in our current reaction to inflation.

Lately I have had some disquieting feelings as I see people who never contributed to government spending losing their homes, businesses and jobs. Is it possible that those of us who place such stock in the virtues of sound personal economics have been duped?

Can we really return to "talking of tulips" five years hence if the way is strewn with the bodies of the nation's savings and loans, the industries that build houses and autos, and hundreds

of thousands of small businesses that contributed mightily to the gross national product and jobs along the way?

ROBERT F. SCHMITT
President
Bob Schmitt Homes
Strongsville, Ohio

The crucial point Kilpatrick makes is that individual decisions led to the current mess and those decisions "were not unavoidable at all." As he noted: "Did we want a little war in Korea? Put it on the cuff, Harry. Did we want a bigger, longer war in Vietnam? Charge it, Lyndon! Would we deny ourselves any desirable program here at home? Not for a moment."

Those words should be before every representative and senator when they vote to continue the programs. It will

take a lot of effort to regain the self-discipline to restore self-reliance.

LEONARD P. LIGGIO
President
Institute for Humane Studies
Menlo Park, Calif.

James J. Kilpatrick said a mouthful when he said, "Charge it, Lyndon!" President Johnson, bless his soul, was the fellow who really got us into this mess. He knew how to twist arms, and legs if necessary, to get Congress to do his will, and he turned this country 180 degrees to the liberal side. He had everyone believing government was Santa Claus.

There is no reason in the world we should pay astronomical taxes to keep those who don't produce a thing.

E.B. GWIN
Bedsole & Gwin, Inc.
Fairhope, Ala.

Any enterprise that ignores the inevitable impact of so-called deficit spending will go bankrupt.

I doubt that the federal and other governments are exceptions. "How do we get out?" First we set realistic income goals and then we decide how to distribute the available funds.

EVERETT ROLFF
Vallejo, Calif.

As a small businessman, I find it increasingly difficult to convince people that we are responsible, individually and collectively, for the predicament we face. We are also responsible for getting out of it. If we allow those who represent us to behave irresponsibly, we have no one to blame but ourselves.

It took years to decline to this point. Our return to prosperity will also take time.

JOHN W. MAGNUSON
President
Magnuson Management
Tacoma, Wash.

Immigration policy

Re: "Uncle Sam's Unwelcomed Boarders" [April].

Carole Feldman quotes a U.S. Chamber of Commerce attorney as saying
NATION'S BUSINESS • JUNE 1982

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You'll receive an Almond Sampler, a handsome tin containing four delicious varieties of our farm fresh almonds. There are seven ounces each of whole natural, hickory smoked, roasted salted and unsalted. All high quality, wholesome almonds — just what you'd expect from Berrenda Mesa Farms, the world's largest grower of almonds.

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Remember when only cattle and cowboys were at home on the range?

Today, coal miners have found a good home there, too.

Yet when Sun Company began mining coal at their Cordero Mine in Northeastern Wyoming, local cattlemen doubted that any good would come of it for them.

They worried that their grazing lands would be ruined by the miners. But happily, Sun has taken a leadership role in addressing the ranchers' concerns through research and restoring lands to a standard equal to or

better than before Sun started mining.

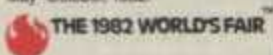
In fact, at a nearby ranch where reclamation research is carried out, Sun has 900 cows of its own—all branded with the Sun name—that provide enough income from calving to pay for Sun's \$400,000-a-year investment in reclamation research.

If the story ended there, it would be good enough. But it doesn't. Sun's Cordero Mine is one of the most successful mines in the country—shipping eight million tons of coal from the mine in 1981.

At Sun, we strive to develop our energy resources—coal, oil, oil sands, geothermal and natural gas—all in a responsible manner.



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that employer sanctions would shift the focus of enforcement "from keeping illegal aliens out of the country to punishing employers." This is in sharp contrast to the views of the Economic Policy Council, a group of prominent business and labor leaders chaired by Robert O. Anderson. The council concluded that "making it unlawful for employers to hire workers who are not in the country legally is essential to effective immigration control because that would go a long way toward destroying the economic incentive for workers to cross the border illegally."

The envisioned verification system could hardly be called a "burden." When a permanent system is in place, employers could simply verify status with one quick phone call. This is no different from what merchants now do to verify credit card transactions.

ROGER CONNER
Executive Director
Federation for American
Immigration Reform
Washington, D.C.

Editor's note: Chamber experts say it certainly would be a burden for some employers, such as construction, agricultural and retail firms, which often hire in spurts. Also, the government would have to handle millions of phone calls yearly, and it's estimated that the verification system would cost \$4.5 billion to start.

We stand corrected

"For Your Tax File" [February] points out that "if you sell your home after age 55, you can now exclude from taxable income up to \$125,000 (\$62,500 if you are single) of any profit (\$100,000 and \$50,000 previously)..."

According to Section 121 of the Internal Revenue Code, the \$125,000 exclusion is for any single individual or any married couple.

The \$62,500 exclusion applies only to a married individual filing a return separately from his spouse.

RONALD G. STRATTON
Price Waterhouse
Minneapolis, Minn.

Editor's note: Ronald Stratton is right. NATION'S BUSINESS regrets any inconvenience to readers.

Reference confidence

Re: "To Be or Not To Be a Reference" [April].

The article piqued my curiosity be-

cause frequently I am asked to be a reference. The reference pledge was especially innovative.

When I finished reading the article, I felt more confident about weighing requests to be a reference.

WILLIAM R. EDGAR
Vice President
Government Relations
Gates Learjet Corporation
Washington, D.C.

Export at your own risk

Re: "Taking the Plunge in International Waters" [April].

Surely you jest! "The government, mindful of our trade balance, is eager to help."

Look at all the ways the government is eager to help.

- Trade sanctions: To achieve by legislation what it is too inept to achieve by diplomacy.

- The Foreign Corrupt Practices Act: It's O.K. to bribe a U.S. congressman, but don't bribe an official in a foreign country.

- Boycott clauses: No one I know of in our government has ever tried to explain to an Arab customer the difference between a positive and a negative boycott clause.

Most of our legislators are still living in 1946. They think the whole world must buy U.S. products to survive. Consequently, foreign competitors are eating our lunch.

I hope I live long enough to see our government truly "eager to help."

MILLER EKAS
Houston, Tex.

I have read countless articles telling me that "firms that want advice on markets abroad need only ask." Having been frustrated in my attempts to export my firm's products, I have pursued all the avenues the government says are open to small business.

I have concluded that people in government know less about exporting than I do from my own research. They really do not want to be bothered with small firms. And the bureaucracy is probably too burdensome and inflexible to ever effectively help small business.

I am not necessarily saying that the government should help small business with exporting. But until it is much better prepared to help, it should stop all this hoopla about "all we need do is ask."

PAUL KALMBACH
Assistant General Manager
Kalmbach Feeds
Upper Sandusky, Ohio

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Common Sense and Censorship

THE BATTLE over "censorship," endlessly waged between the supposed yahoos on the one hand and the supposed literati on the other, has picked up steam in recent months. In Long Island, in Virginia—almost everywhere, it seems—the rights of students and taxpayers are being pitted against the powers of school boards and public officials. This is a splendid intellectual combat. It makes us think, and thought is the rarest commodity around.

If we think the matter through, especially this matter of censorship in the public schools, we are likely to discover merit on both sides of the battle. Not all the supposed yahoos are prudes, bigots and ignoramuses. Not all the literati exhibit common sense.

We begin with a few postulates on which common ground can be shared. First, because both shelf space and public funds are limited, the number of books in a school library must also be limited. This means that at some point, a process of selection has to be entered into. The primary aim of this process is to provide a body of reading material intended to advance the education of young people; public libraries and school libraries are two different outfits.

Now we get into a swamplier terrain. Let us acknowledge that some books and publications simply are not suitable for a high school library. Not even the most liberated civil libertarian, we may suppose, would demand that subscriptions to *Hustler* and *Penthouse* be added to the periodical list. On the other hand, we ought also to agree that not every depiction of sex or nudity is unsuitable for a high school library; it takes a real yahoo to insist that an opaque black brassiere be inked across the chest of the Venus de Milo.

How, then, under what sensible guidelines and procedures, should a responsible process of selection or "censorship" be undertaken? Here both sides have to give a little. A recent celebrated case from Nassau County on Long Island may be instructive. The president and vice president of the community school board attended a conference in Watkins Glen, N.Y., sponsored by a right-wing outfit called People of New York United. There they were given a list of books deemed objectionable. Returning to their local high school, the board members checked the card catalogue, and lo, they found 10 of the books on hand. They ordered all copies of these titles removed at once, and then they sat down to think about it.

In the end, to shorten a long story, the board appointed a review committee of four faculty mem-



bers and four townspeople. The committee read the books and by divided votes recommended that most of the titles be retained but that a couple be removed. After further deliberation, the board overruled the committee and kept one but removed nine. The 17-year-old president of the student body, through his mother, went to court charging that his First Amendment freedoms had been violated. A federal district judge summarily dismissed his complaint, but the Second Circuit U.S. Court of Appeals, bitterly divided,

on two occasions remanded the matter for trial. Further appeal was taken, and a Supreme Court decision should be along very soon.

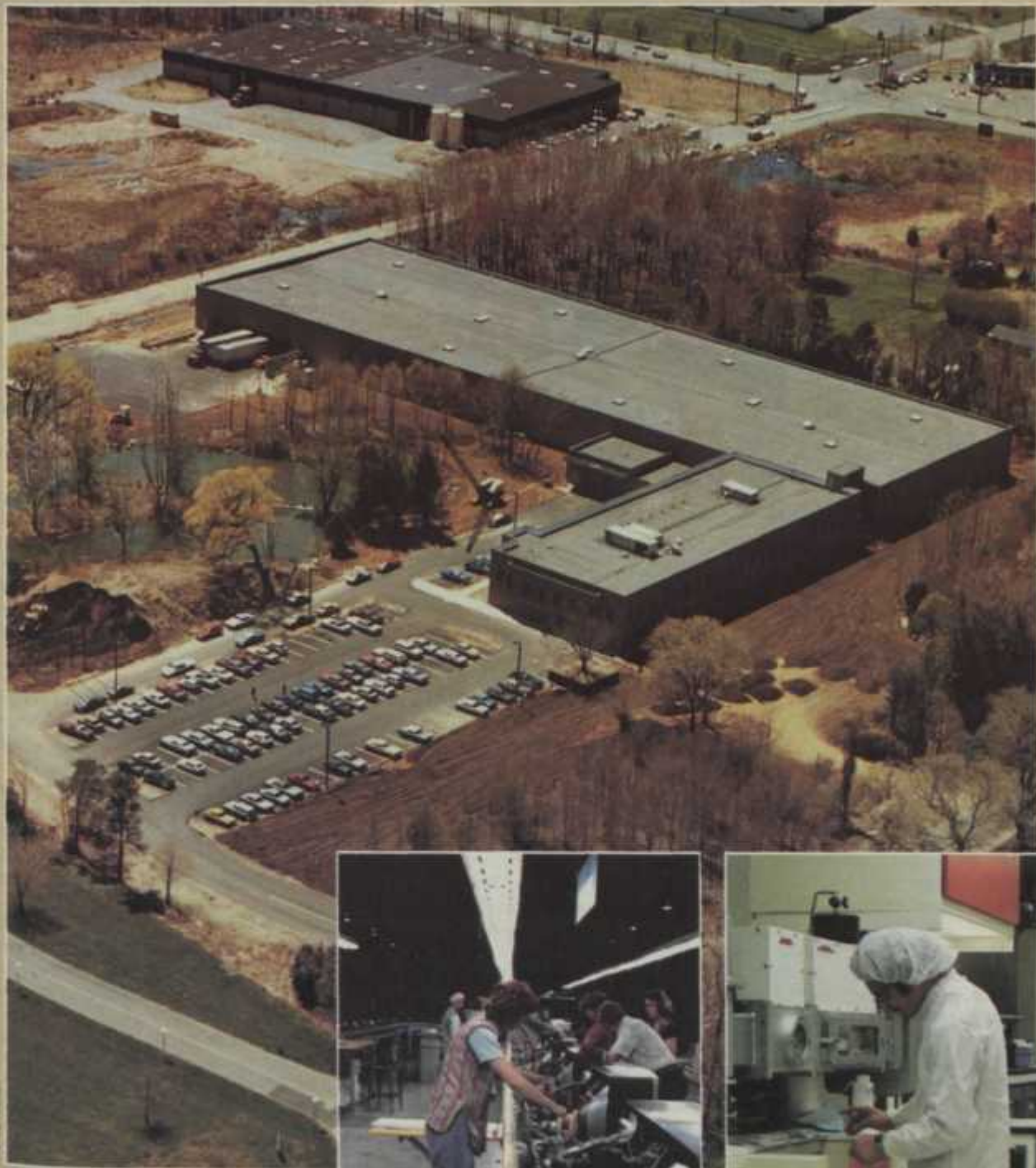
It was undisputed, as Circuit Judge Walter R. Mansfield noted in dissent, that all but one of the nine proscribed books "contained indecent matter, vulgarities, profanities, explicit sexual descriptions or allusions, sexual perversion" and so on. Rep. Norman Lent (R-N.Y.) proposed to read some of the prurient passages into the *Congressional Record* but was told by the Printing Committee that the passages were unfit for publication.

VERY WELL. I come down squarely on the side of the school board. The board may have acted arbitrarily at first, but it acted responsibly thereafter. It doubtless is true, as the New York Civil Liberties Union argues, that high school students should be exposed to many ideas, but the idea that some white women lust for black sexual partners—an idea vividly and explicitly advanced by Eldridge Cleaver in *Soul on Ice*—is not an idea that must be promoted in a tax-supported school library.

In another case that recently attracted national attention, school officials in Fairfax County, Va., ordered English teachers to stop making classroom use of *Huckleberry Finn* in Mark Twain Intermediate School. It was a nice, ironic twist. The ban has been suspended for further consideration. Here, too, I would go along with whatever the school board finally decides. It seems important to respect the sensitivities of blacks who find *Huck* grossly offensive. It is possible to grow into literate adulthood without having to read *Huckleberry Finn*.

What is needed in this whole troublesome area is a little more tolerance—tolerance by school boards and parents of some books they may find distasteful, and tolerance of community sensibilities by libertarians and librarians. Unhappily, when these battles heat up, tolerance is even rarer than thought. □

JAPAN



The Toshiba America, Inc., plant in Wayne, N. J., is an example of growing Japanese investment.

Color TVs are assembled at this Toshiba facility in Lebanon, Tenn.; at a Toshiba Semiconductor (USA) Inc. plant in California, dust-proof facilities are needed.



The Impact of Japanese Investment in the U.S.

In his book, "Japan As Number One," Prof. Ezra Vogel of Harvard presents the supposition that Japan may soon be the leading economic power in the world. While Prof. Vogel's contention may be seen by some people as a threat to the U.S., it may be that Japan's economic stride represents less of a threat than it does an asset.

Japan already plays a major role in the U.S. economy as America's largest trading partner for goods and services. Coupled with this trade relationship are increasing Japanese investments in the United States. Last year, according to the Japan Trade Center, Japanese business spent 23.3 percent of its \$5 billion overseas investment in the United States, the largest investment in a single country.

Japanese investment in the U.S. is part of an overall trend toward increasing foreign investment in the U.S. Through March, 1981, foreign investments in the U.S. reached a cumulative total of \$55 billion. Increased foreign spending has been particularly noticeable during the past several years, reaching a three-year total of \$20 billion from 1978 to 1980.

Although several countries, such as the Netherlands, United Kingdom and Canada are the largest investors in the U.S. economy, Japan showed the largest increase in investment—64 percent—from 1978 to 1980.

The economic impact of this growing Japanese business activity in the U.S. is revealed in a survey conducted by the Japan Society last year. The survey indicates that by 1979, no less than 1,177 Japanese businesses had been established in the United States. These firms provided jobs for more than 100,000 Americans, with a total compensation of \$20 billion. Total taxes paid by Japanese firms operating in the U.S. were \$1 billion. Although there are no direct figures on current levels, recent reports on Japanese investments indicate that the figures are on the rise.

Japanese investments were first concentrated in the commercial service and sales sectors such as trade, banking, insurance and retail sales. Many of



This NEC plant in Dallas is one of six around the U.S.

these firms were located in New York City, which now serves as home for Japanese investors, including 100 trading companies and 26 banks. Today, however, there is a trend toward more capital investments in manufacturing operations.

In the early 1970s, manufacturing was only 9 percent of the total U.S. investments. By 1980, that figure increased to roughly 20 percent.

Japanese firms have established 210 manufacturing subsidiaries, which made an estimated \$5 billion worth of goods in the United States. Among better-known products made in this country by Japanese companies are Toshiba, Panasonic and Quasar televisions, Kawasaki motorcycles, Yamaha pianos and even Kikkoman soy sauce.

When the average Americans see a color TV set with the name Toshiba or Panasonic, they think "Made in Japan" when in fact more than 2 million "Japanese" sets will be made by Americans in the U.S. this year.

Matsushita Electric, makers of Panasonic and Quasar products, have opened additional manufacturing facilities in the United States to supplement their Chicago-based manufacturing operation, which began in 1974.

International business diversification is one of the major principles guiding the management of Toshiba Corporation.

The thrust of corporate development is toward local procurement, local production and greater participation in international consortia.

Today, in many parts of the world, Toshiba sales activities have been supplanted by more meaningful involvement in local economies through plant construction, technology introduction and job skill development.

Corporate overseas activities fall into two categories. First is the network of international offices, manned by both Japanese and host country citizens, in 24 cities around the world. The second comprises subsidiaries—sales, manufacturing and financial—and manufacturing facilities.

The largest and oldest of Toshiba's American subsidiaries is Toshiba America, Inc., headquartered in Wayne, N.J. Established as a local company in 1965, the wholly owned subsidiary sells Toshiba products in the United States. It now employs 1,400 people.

The corporation maintains consumer products business sector offices in four American cities—Wayne, Chicago, Dallas and Los Angeles. The Industrial Electronics Business Sector has an office in Tustin, Calif. Sales offices and warehouses are located in Detroit and Irvine, Calif. Divisional offices are Medical Systems, Carson, Calif.; Telecommunications Systems, Armonk, N.Y.; and Broadcast Electronic Systems, Sunnyvale, Calif. In Lebanon, Tenn., the manufacturing division has a factory turning out color television sets and microwave ovens.

Consumer products are sold by the wholly owned Toshiba Hawaii, Inc., established in Honolulu in 1968. In San Francisco, Toshiba International Corporation, also wholly owned, sells industrial products. Toshiba maintains branch offices in Vancouver, B.C.; Washington, D.C. and Houston. In Houston there is also an industrial motor manufacturing plant employing 250 people. Toshiba Semiconductor (USA) Inc., established in 1980, is another manufacturing subsidiary located in Sunnyvale, Calif. It employs 250 people.

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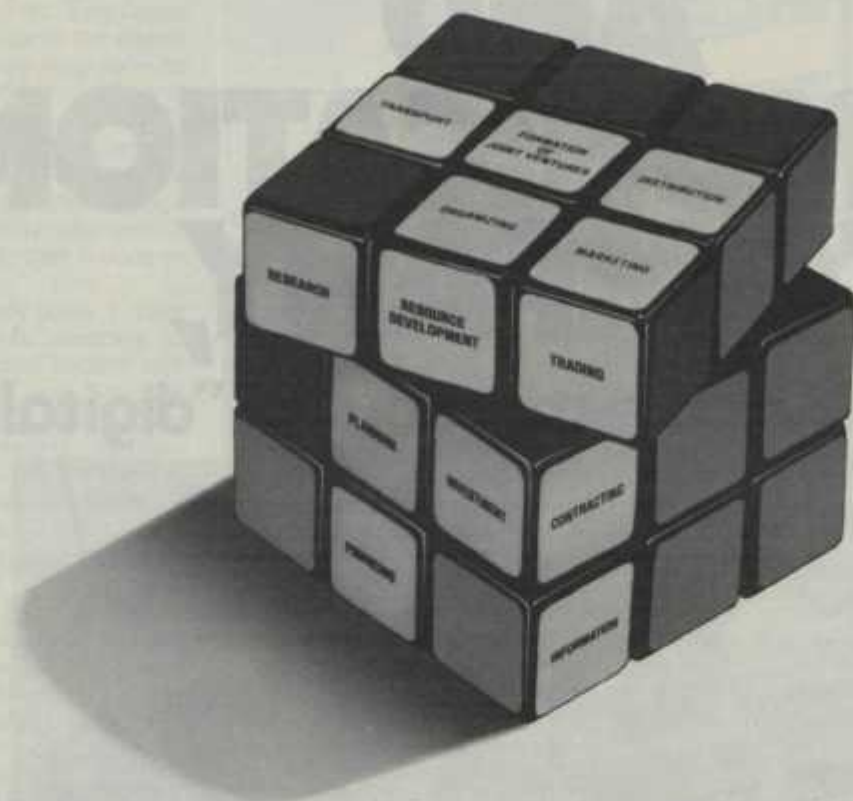
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THE TRADE SPECIALISTS: JAPAN'S SOGO SHOSHA



What is a Japanese sogo shosha?

Though sogo shosha translates literally from Japanese into English as "general trading companies," a sogo shosha is no ordinary run-of-the-mill type of commercial trader.

Just consider, for example, a typical sogo shosha's broad range of functions:

General trading, distribution, transportation, contracting, marketing, investment, research, financing, resource development, planning, information, joint-venture undertakings, offshore trading and

the organizing of large-scale turn-key operations.

This diverse range of sogo shosha functions helps spread out or lessen the risk in projects like natural resource, regional or new energy source development; while making the whole process of international commerce less complex and more favorable for everyone.

And Japan's sogo shosha are prepared to do more, behind a healthy spirit of coexistence in harmony with today's growing economic interdependence.

For further information, write to any of the following leading sogo shosha in Japan:

C. Itoh & Co., Ltd.

5-1, Kita Aoyama 2-chome, Minato-ku, Tokyo 107

Marubeni Corporation

4-2, Otemachi 1-chome, Chiyoda-ku, Tokyo 100

Mitsubishi Corporation

6-3, Marunouchi 2-chome, Chiyoda-ku, Tokyo 100

Mitsui & Co., Ltd.

2-1, Otemachi 1-chome, Chiyoda-ku, Tokyo 100

Nissho Iwai Corporation

4-5, Akasaka 2-chome, Minato-ku, Tokyo 107

Sumitomo Corporation

2-2, Hitotsubashi 1-chome, Chiyoda-ku, Tokyo 100

visionary one—in the United States is Nippon Electric Company.

Probably one of the most significant mergers that took place in the 1970s was not one of companies but one of ideas, one of potentials rather than of people. The merger, orchestrated by Japan's Nippon Electric Company in 1977, combined "C" and "C"—computers and communications—and promises to revolutionize life itself.

Founded at the turn of the century, NEC has grown from a small manufacturer of telephone equipment into one of the world's largest electronics manufacturers. With annual sales approaching \$5 billion, it produces more than 15,000 "C & C" products for sale in 138 countries. Yet, as NEC's chairman and CEO, Dr. Koji Kobayashi, explains, the company's actual products are merely the means to an end.

"Our aim is not to create and market computers and communications products in a societal vacuum but to merge these two technologies to create a global society where man is free to realize his full potential. We believe the C & C combination will completely alter the way people handle electronic information and therefore will alter the way people live as well."

Since its advocacy of its C & C philosophy, NEC has oriented each of its operations—engineering, manufacturing, research and development, and marketing—toward the development of the C & C society.

Its 57 plants, including six in the U.S., manufacture only voice and nonvoice communications products and components for use in space, in the air, on land and under the sea. NEC's more than 2,000 U.S. employees are involved in the marketing or manufacture of such products as key telephone systems, facsimile equipment, mobile and portable radio equipment, digital switching systems, broadcasting equipment, satellite communications systems, microwave communications systems, business and personal computers and computer peripherals, fiber optics transmission systems, home electronic devices, integrated circuits, large scale integrations, and other electron devices.

NEC is dedicated to achieving its goal of a C & C society. The company is currently the world's leading supplier of satellite communications systems and microwave communications and the second largest manufacturer of integrated circuits and other types of semiconductors. It is also a leading computer manufacturer with a full range from per-

sonal computers to giant models.

What does the future hold in store? In the years ahead, C & C technology and products are expected to affect nearly every aspect of daily life. An especially important manifestation of this concept is the envisioned ISDN, or Integrated Services Digital Network. In essence, ISDN involves the construction of a wide-area, multifunction communications network that will allow an individual to access any type of information from any place at any time.

Dr. Kobayashi explains, "Efforts to increase the use of computers and communications have tended to concentrate on huge systems such as those for governments, companies and societies. In the future, however, there will be more and more emphasis on individual-based systems. Should we be successful in

A second factor contributing to Japanese investments is the cost of labor in the U.S. Until several years ago, manufacturing in the U.S. by Japanese firms was prohibitive due to higher labor costs. However, as Japanese workers increase their pay levels to that of their American counterparts, the deterrent to Japanese investors has vanished.

In addition, with the exception of industries such as space and aircraft technologies, Japanese companies can now compete on an equal level with most high-technology products for the U.S. market.

To fully understand the Japanese commitment to the U.S. market, it must be understood that the Japanese view such a venture as a partnership. In return for sales opportunities, Japanese companies expect to contribute to local



Dr. Koji Kobayashi, chairman and CEO of Nippon Electric Company

creating that global C & C community of knowledge, and I honestly believe we will, the result can only be greater happiness and prosperity for mankind."

One of the most recent major Japanese companies to begin manufacturing operations in the U.S. is Nissan. Its \$320 million plant in Tennessee manufactures Datsun trucks.

If current investment activities indeed represent a trend in U.S.-Japan relations, it makes sense to try and understand what factors have led Japan in this direction. To start with, many Japanese firms now have almost 30 years of business experience in America. After years of working in this market, they have developed an intimate understanding of the U.S. market, its business procedures and consumer tastes.

and national economies, through more jobs, taxes, purchases and related benefits. In addition to these direct benefits, they view a partnership as the sharing of manufacturing technologies and management practices.

Much has been made of the Japanese style of business, the commitment to quality control, worker motivation, etc. But what must also be mentioned is that the Japanese adopted a number of these qualities from Americans. The management techniques now so heralded by people around the world were first developed in the U.S. by American businesses. The Japanese offer a partnership with U.S. companies in refining those management practices, thus maintaining America's leading position in the world economy.

Sogo Shosha Can Help You

By definition, Japan's Sogo Shosha—general trading companies—are involved not only in export and import trade directly but also in other activities. They are trade and development companies whose operations also include overseas investment and joint ventures. To provide a better insight into the activities of these firms and their possible application to U.S. trade efforts, Yasuo Oki, managing director of the Japan Foreign Trade Council, gave these responses during a recent interview:

It is probably just a matter of time before the U.S. Congress passes the pending Export Trade Act. Do you think it will be possible for America to develop general trading companies along the lines of the Japanese Sogo Shosha?

In my opinion, even if such a bill is passed, the chances that general trading companies similar to Japan's Sogo Shosha will arise in the U.S. is highly unlikely, to say the least. I don't mean that a new, American form of trading house isn't possible, but rather, that export companies after the fashion of the Sogo Shosha are not likely. I say this because Japan's general trading companies, the Sogo Shosha, are the product of over 100 years of historical, cultural, social and political as well as economic development of a type peculiar to Japan. If a Sogo Shosha-like export system were developed in the U.S., it would most certainly have to be an adapted version, one that meets the standards and customs of America and the American way of doing business or else it couldn't survive.

The Sogo Shosha are being called the "ringleaders" of nontariff trade barriers. Is there any truth in this?

I've been asked this same question hundreds of times and my answer has always been the same. Nothing could be further from the truth. In fact, the Sogo Shosha exist for and base their livelihood on free world trade. The leaders of the Sogo Shosha have traditionally headed Japan's import promotion missions overseas.

Sogo Shosha are not interested simply in "pushing" Japanese products overseas, as many would like to believe, but rather they are heavily involved in the importing of foreign-made goods into



Japan Foreign Trade Council's Yasuo Oki

Japan and for sale as offshore trade.

If we look at statistics compiled on foreign trade activities of major Sogo Shosha for fiscal 1980 by the Ministry of Finance, we see that in actuality they imported more than they exported.

Exactly what role are the Sogo Shosha carrying out in terms of U.S. exports to Japan?

Japan relies on the U.S. for most of its agricultural imports. If we take this area as representative, we see that the Sogo Shosha are responsible for 70 percent of all agricultural products imported to Japan from all over the world, and the United States in particular, and thus can be said to be carrying out a vital role in terms of U.S. exports to Japan. However, they not only import these products but are also involved quite strongly in the development of grain elevators and the like in the U.S. to help hold down costs and minimize losses due to fluctuations in the international market.

How can the Sogo Shosha be of assistance to foreign companies wishing to penetrate the Japanese market?

I believe the Sogo Shosha can be of the most assistance as partners to those overseas firms willing to devote the time and resources necessary to successfully penetrate the complicated Japanese market. As a partner to such foreign firms, the Sogo Shosha can help them establish their reputation in Japan, identify gaps in the market that their products could fill, overcome problems of red tape and keep an eye out for future joint ventures where the company's leader-

ship would be attractive to Japanese groups.

Once again, however, I must stress the need for cooperation from abroad. More specifically, I would like to advocate the creation of more associations like the Sell Overseas America (SOSA) Association of American Export based in Woodland Hills, Calif., which is geared toward helping small- and medium-sized businesses become involved in exporting. We received about 200,000 inquiries from all over the world during fiscal 1981. Of those only about 10 percent concerned exporting to Japan. Nonetheless, if organizations like the SOSA could cooperate with us in determining which small- and medium-sized businesses stood the best chance of success in Japan, introduced those companies to us and vouched for their reliability, etc., then the Sogo Shosha could get to work assisting those companies to get started in Japan.

How many Sogo Shosha are there?

There are currently 16 Sogo Shosha in Japan. They are Chori Company, Ltd., C. Itoh & Co., Ltd., Itohan & Co., Ltd., Kanematsu-Gosho Ltd., Kawasho Corporation, Kinsho-Mataichi Corporation, Marubeni Corporation, Mitsubishi Corporation, Mitsui & Co., Ltd., Nichimen Co., Ltd., Nissho Iwai Corporation, Nozaki & Co., Ltd., Okura & Co., Ltd., Sumitomo Corporation, Toshoku Ltd., and Toyo Menka Kaisha, Ltd.

Could you please give us your views regarding the future roles of the Sogo Shosha?

Well, as they have done up to now, the Sogo Shosha will continue to support and promote the free trade system having efficiency and fair play toward all as their underlying principles. More specific goals will be to increase their involvement overseas in investment and financing, technical and capital tie-ups and other forms of economic cooperation; to diversify and improve the products they export and import and to abide by the principles of free trade conducted in a self-regulatory manner; and to strive to develop new technologies and to introduce new resource- and energy-saving processes. All these things the Sogo Shosha will endeavor to do in the future, and all will be done with an eye toward global interests.



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THE ECONOMY

Surtax Could Harm Recovery Incentives

A surtax on the federal income tax might be the price for further cuts in social programs because of a public perception that the Reagan tax plan has benefited the rich more than the poor, according to Treasury Secretary Donald T. Regan.

Regan also noted that the surtax "is perceived as not having worked" in previous administrations that have tried one. He made the remarks in response to a question asked while he was attending a meeting at the U.S. Chamber of Commerce in Washington.

Economic analysts for the Chamber point out that imposition of even a 4 percent surtax—the rate often mentioned—could undo some of the incentives built into the Economic Recovery Tax Act of 1981. They cite experience with the last surtax, imposed in stages in 1968 and removed in stages in 1970. Throughout 1969, the rate was 10 percent on individuals and corporations.

Real gross national product, which had grown at an average annual rate of 4.9 percent from 1961 through 1968, rose only 2.8 percent in 1969 and fell by 0.2 percent in 1970. The savings rate fell

from 8.1 percent in 1967 to 6.4 percent in 1969, then climbed back up to 8.1 percent again for 1971, after the surtax had been removed.

Kenneth D. Simonson, a Chamber tax analyst, says the figures indicate that "individuals reacted to the surcharge almost entirely by cutting saving."

Wall Street's Real Concern Is Spending

Politicians who want to raise taxes often cite "Wall Street" fears of a large federal budget deficit as justification. But it turns out that what Wall Street really fears is politicians who refuse to cut spending.

Oppenheimer & Company, a Wall Street investment firm, surveyed 138 of the executives who invest assets in trusts, pension funds, mutual funds and insurance funds. Ninety-three responded to the survey in December, 1981, and 72 answered a follow-up questionnaire last March.

More than half agree that "the deficit is a red herring... the real problem is government spending as a percent of gross national product." Sixty percent say spending cuts are the way to solve current economic problems, while only 16 percent favor tax increases. Eighty-seven percent oppose tax increases in 1982. Only 21 percent agree that "the deficit is a big problem and we must get it down."

Ninety-four percent say there is room for cutting waste from defense, and 88 percent say there should be cuts in the social programs that are indexed to inflation.

How long will it take for these policies to straighten out the economy? Sixty-one percent say it will take two or three years, and 23 percent say five years or more.

Projected Deficit Remains Unaltered

For the first five months of fiscal 1982, federal revenues were 13 percent higher than for the same period in 1981 and outlays were only 10 percent higher, producing a smaller budget deficit than anticipated.

That encouraging trend led one economics columnist to predict a deficit of \$65 billion for the entire year. Congressional eyebrows shot up, since the official administration projection is for a deficit of \$100.5 billion and the Congressional Budget Office says it should be at least \$110.1 billion. However, the sixth month—March—brought no increase in revenues and a 15 percent spurt in outlays, driving the deficit to \$71 billion and giving the early optimists an attack of pessimism.

The Treasury is standing by its numbers. "We have gone over this very carefully... The ultimate deficit will be very close to what we have projected," says Treasury Secretary Donald T. Regan.

What, then, caused the encouraging early results? Regan mentions a speedup in corporate tax collections and a larger penalty for late payment. Beryl Sprinkel, under secretary for monetary affairs, says the government is now collecting taxes based on last year's economic activity, which was stronger. Both officials remind everyone that a large tax cut will take effect in July.

CORPORATIONS

To Save on Taxes, Reinvest Dividends

Dividend reinvestment plans, whereby stockholders have the option of accepting additional shares in a firm rather than taking a cash

dividend payment, are increasing in popularity.

They are a way for corporations to raise capital without large new equity offerings, and according to a new Arthur D. Little impact services report, the number of dividend reinvestment plans has doubled since the mid-1970s.

Donald L. Cassidy, the report's author, says that more than 750 listed companies and 200 over-the-counter firms now offer reinvestment plans.

He points out that capital-intensive industries find the reinvestment plans particularly attractive. "Utilities alone generate more than \$2 billion per year through dividend reinvestment," he says.

Cassidy predicts heightened public awareness of the tax shelter provisions granted to public utility reinvestment plans will increase investor interest.

Economic Recovery Tax Act provisions grant a shareholder a \$750 exemption from taxes (\$1,500 for a married couple) if that amount of dividends from a qualified public utility is reinvested. The exemption is annual through 1985.

Accountants' Puzzle: Pension Cost Entry

Accountants continue to wrestle over whether a firm's pension costs should appear on the income statement as an expense or on the balance sheet as a liability. A mail survey of 2,500 accountants and financial analysts concludes respondents prefer that the costs be expensed and kept off the balance sheet.

Sixty-one percent "opposed liability recognition... and of those who felt some measure of a liability should be recorded, most favored using either vested

PHOTO: WAYNE PATTLOW



Treasury's Donald T. Regan questions the surtax's effect.



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benefits or accumulated benefits as a measure of obligation," according to the study, prepared by the Financial Executives Research Foundation.

In addition, 73 percent of the respondents disagreed with a requirement that the same actuarial method to determine expense should be used by all pension sponsors. "The point was made that every plan and sponsor is unique," the study says, "with respondents noting that companies are allowed to choose among acceptable methods in other accounting areas, such as depreciation and inventory valuations."

More Plants Stay Open During Strikes

Employee walkouts used to be a surefire method of shutting down a plant. Not any more. "A small but growing number of manufacturers find they can successfully dissipate union power by staying open," says a study by Charles R. Perry, associate professor of management and industrial relations at the Wharton School of Business at the University of Pennsylvania, and labor attorneys Andrew Kramer and Thomas Schneider.

"A shift to less labor-intensive operations and the growing ratio of nonunion, salaried supervisory personnel to hourly workers is making it more feasible for firms to take a strike," they say.

Unions have not fought the trend, the study reports,

because they see management's use of supervisory personnel, rather than new hires or back-to-work movements, as temporary and of little threat to the unions.

At best, continuing plant operation is not profit-motivated but more of a holding action; it does, however, produce long-term economic gains, the study says. "Virtually all firms studied made permanent reductions in payrolls following experience with supervisory manning of production. Some reductions were as high as 15 to 20 percent."

The study, based on 15 cases of continued operations during strikes, turned up a still greater long-term benefit for management. Say the authors: "By successfully taking a strike and continuing production, firms were able to shorten the length of strikes and win more favorable bargaining settlements than otherwise."

Reshaping Health Plan Cuts Costs

Because of soaring health care costs, a New Jersey corporation is reshaping its medical program for its 58,000 employees in hopes of "keeping them out of the hospital."

Allied Corporation last year spent an average of \$1,700 per employee on health programs. To pare that expense, it has instituted such cost-saving changes as extended-care benefits up to 365 days to encourage shorter hospital stays, pay-

ing for a second opinion on surgery and full coverage of diagnostic tests and minor surgery done on an outpatient basis.

Allied's program focuses on keeping employees well and motivating them to stay that way. It provides counseling and educates them on the effects of smoking, noise exposure, diet and fitness. It arranges examinations before employment and retirement as well as periodic exams and tests for specific occupational health hazards.

Its on-site medical staff includes nine full-time and 35 part-time physicians, 200 physicians on retainer and 100 full-time nurses.

Allied officials, who estimate costs of existing health programs in American industry will increase 50 percent by 1985, contend the answer to the search for lower costs and healthier employees must come from within the plant.

GOVERNMENT

Census Bureau Sets Up State Centers

To make its information resources more widely available, the Bureau of the Census has established a network of 44 State Data Centers.

The bureau furnishes census materials—publications, microfiche, maps and summary computer tapes concerning each state—to the centers and their 900 affiliates, which help with the distribution. Cost to the federal government is about \$15,000 per state per year.

State Data Centers, incorporated into a branch of the state government or a state university, usually combine the federal statistics with figures gathered by the state to compile a comprehensive statewide demographic profile.

The centers also provide early access to census information because the statistics often arrive on computer tape months before the bureau publishes them in printed form.

Davis-Bacon Act Hurts Low-Skilled

The Davis-Bacon Act, passed during the Depression to protect local construction workers, is stifling job opportunities for youths and minorities, says William A. Keyes, an economist with Congress' Joint Economic Committee.

Davis-Bacon requires the Labor Department to determine the prevailing wage, usually the union wage, paid in a given geographic area for specific skilled tasks.

"Contractors are discouraged from hiring low-skilled workers for federally financed jobs," Keyes says. "The Davis-Bacon Act requires that any time anyone picks up a tool of the trade, such as a saw or a paintbrush, he must be paid as a journeyman in that trade."

With black youth unem-

PHOTO: JEC



Economist William A. Keyes wants jobs for the low-skilled.

ployment exceeding 40 percent, the economist says, contractors should be encouraged to offer young laborers the opportunity to "work with skilled tradesmen, learning as they go."

Keyes adds: "Jobs labeled dead-end by social scientists and community activists have great desirability in the eyes of teen-agers looking for work experience."

SMALL BUSINESS

Growing States Like Small Firms

The 10 states with the fastest job growth can thank small firms. Though firms that employ fewer than 100 people account for

roughly 49 percent of job growth nationwide, Thomas Gray, acting chief economist of the Small Business Administration's Advocacy Office, says the figure was 85 percent in Wyoming, 64 percent in Colorado, 61 percent in Florida and 54 percent in Arizona.

Using 1977-79 data, the latest available, Gray ranks the 10 states with the fastest growth in firms employing 20 to 99 people: Wyoming, Arizona, Nevada, Florida, Colorado, New Hampshire, Oregon, Washington, California and Maine.

The two Northeastern states among all those Western and Sunbelt states have benefited from New England's high-technology boom. "New Hampshire is the closest thing this country has to a laissez-faire economy," says Gray. "It has no state income tax and no sales tax. The state attracts a lot of people who generate new ideas."

Discount Sought For Patent Fees

Patent fees are due to rise, but Sen. Lowell Weicker (R-Conn.) thinks small business should get a 50 percent discount.

The senator, who is chairman of the Small Business Committee, has introduced a bill to set up a two-tier system of patent fees.

Small businesses, universities and independent inventors would pay 50 percent of a set cost, and all other entities, 100 percent.

Michael K. Kirk, in charge of legislative affairs at the Patent and Trademark Office, says the office is already suffering from long-term underfunding. The average time for issuing a patent has risen from about 18.7 months in 1976 to the current 23 months, and Kirk says higher fees will ensure "first-quality service."

The Patent and Trademark Office's proposed fees are \$800 for filing and patent issuance, instead of the current average of \$230,

PHOTO: U.S. PATENT OFFICE



Higher patent fees will be hard for small firms to absorb.

plus \$2,400 in maintenance fees during the 17-year life of the patent. Currently, there is no maintenance fee.

"Most large businesses can absorb this kind of increase without much trouble," Weicker says. "For a small business, however, the prospect of a \$3,200 outlay could have a chilling effect on plans to go ahead with a patent."

Kirk would accept lower filing and issue fees for small business but not lower maintenance fees. After someone has had a patent for a number of years, "he should be making money," Kirk says. "If not, we question why we should keep the patent in force."

INTERNATIONAL

U.S. Standard Of Living Still Tops

The United States had the highest standard of living among industrialized countries in 1980, according to a study by the Organisation for Economic Co-operation and Development. The U.S. also had nearly the highest prices among the 15 nations studied, exceeded only by West Germany and the Netherlands.

The 24-nation organization in Paris used a new, more accurate method to compare economies with different currencies and price structures. Economic activity in individual countries is adjusted by using an index known as "purchasing power parities."

The index is based on ac-

tual cost in each country of a representative group of 1,300 items. In the past, economies usually were compared using exchange rates.

Living standards are based on gross domestic product per capita. In 1980 the GDP was \$11,364 per American, \$1,542 more than Luxembourg, the second-ranking country in the study. Next were West Germany, \$9,428; Denmark, \$9,087; and France, \$9,040.

Lowest among the nations were Greece, which in 1980 had a GDP of \$4,683 per person, and Portugal, with \$3,684.

England Limiting Use of Ltd.

There'll always be an England, but the days of *Ltd.* as the unmistakably British designation for a limited liability company are, well, limited.

To unify commerce among its members, the Common Market in 1976 directed the British to distinguish their public limited companies from their private limited companies.

Unfortunately, both designations have the same abbreviation, PLC. Undaunted, the British government decided to inconvenience only the 17,000 public firms and leave the 800,000 private firms alone. Still, that's a lot of new stationery.

Public companies must add Public Limited Company to their corporate names, spelled out or abbreviated in the fashion of their choice: PLC, P.L.C., Plc, plc, whatever.

Thus Barclays Bank Ltd. becomes Barclays Bank PLC. But rather than recall 240 million traveler's checks, the Barclays Bank International Ltd. subsidiary will retain its Ltd.

To avoid redesigning logos and printing new stationery, some public firms that do not need to sell stocks or bonds on the open market—the activity that now defines the public company—are going private.

U.S. Firms Oppose Law of Sea Terms

With formal ratification of the United Nations' Law of the Sea Treaty only six months away, United States industry is trying to dissuade the administration from signing the agreement, which it says would be tantamount to giving away America's competitive edge in seabed mining.

At least 60 nations are expected to adopt the accord in December, thus making it international law. The International Seabed Authority, a regulatory body, would then control mining of an immense wealth of seabed minerals. U.S. business' chief objection to the treaty is that it would require firms wishing to mine the seabed to relinquish their technology to the Seabed Authority. The U.S. is the current leader in this new field.

"We'll find other markets for our equipment and knowledge if we have to, but we will not transfer them to Third World countries," vows Richard Legatski, who represents the 500-member National Ocean Industries Association.

After eight years of intense negotiations, the United Nations last month adopted a treaty draft. Venezuela, Turkey and Israel joined the U.S. in rejecting it, but the U.S. will be pressured by other countries to endorse the accord when it comes up for ratification later this year.

If the U.S. does not sign,

PHOTO: NEWS



U.S. may balk at sharing deep-sea mining expertise.

firms that go ahead with seabed mining would not be violating international law because the treaty's terms would not be recognized by this country. Congress could then be expected to draft legislation providing companies with financial protection to encourage them to proceed.

It is estimated there is a total of some 1.5 trillion tons of baseball-size nodules on the ocean floor. Those lumps contain such valuable metals as manganese, nickel and cobalt. Currently, the U.S. imports nearly all of those minerals from politically unstable countries.

TECHNOLOGY

Expanding Use For Sound Waves

Ultrasound, or high-frequency sound waves, is best known for its application in cleaning instruments, but now scientists are documenting proof that before long, it could be a valuable aid in manufacturing drugs and plastics.

"We have found that the same shock waves that clean surfaces by vibrating particles away will greatly accelerate important chemical reactions," says Philip Boudjouk, associate professor of chemistry at North Dakota State University, Fargo. Boudjouk and a North Dakota State graduate student, Byung-Hee Han, are conducting the first systematic study of the range of chemical reactions that can be affected by ultrasonic waves.

The time of some chemical reactions can be reduced from eight hours to just one hour, and the purity of certain chemical products can be increased 15 times. Further, ultrasonic waves enable some reactions to take place at room temperature instead of high heat.

The significance: potential for substantial energy savings in the manufacture of many industrial and consumer products. "Some manufacturing processes that have been clearly impractical in the past may now be feasible," Boudjouk says.

For industry, perhaps the most welcome news is that the apparatus to use ultrasound is relatively cheap. What Boudjouk has costs about \$100.

Four Technologies Spell Opportunity

Four key technologies may soon do to present industries what the internal combustion engine did to buggy whip makers. But opportunities for firms that identify the coming changes will be great.

The Columbus, Ohio, division of Battelle, an independent contract research organization, is preparing for clients forecasts on telecommunications, plant genetics, computer-aided design and manufacturing, and sensors. The 10-year forecasts will consider the likely speed of development for each technology and its effect on capital needs, employment levels and job skill requirements.

- Telecommunications. Evolution of this technology will change the way information flows in business. Banking and postal services will be restructured, and communication may replace some transportation as people work at home. Demand for equipment will grow.

- Plant genetics. Manipulation of plant genes has political significance if genetic improvements can alleviate world hunger. Microorgan-

isms that fertilize the crops they live on and plants that produce fuels and chemicals may become feasible. This field will thus affect pharmaceutical and chemical companies as well as agriculture itself.

- Computer-aided design and manufacturing. CAD will let firms reduce design time from months to days, cut errors and increase flexibility in products. CAM will help manufacturers cut costs, standardize parts, reduce inventory and improve efficiency.

- Sensors. New developments in microelectronics and the sensors that link microelectronics with industrial processes will bring change to these fields: automobiles, plant and office automation, communication, leisure and health electronics, and domestic electrical equipment.

Future of Space Industry Unclear

Is there a future in ultrapure semiconductor material produced in outer space?

It's questionable, despite America's successful space shuttle flights and talk of the industrialization of space.

International Resource Development, a research and consulting firm that explores the commercial implications of new technologies, predicts that by 1987 some \$2.5 billion in products and services will result from space activities.

And the market for ultrapure semiconductor material produced in space, which accounts for about \$200 million of that, could grow to \$500 million by 1990, the firm reports.

Several major electronics firms aren't so sure. Among them is Dallas-based Texas Instruments. "There is no significant advantage in growing silicon crystal in outer space," says Willis Adcock, one of the developers of the silicon transistor and TI's chief scientist.

Adcock's view is based on experiments that TI con-

ducted in 1974 in which semiconductor material was produced aboard Skylab. According to a TI spokesman, the sample brought back to earth revealed no improved characteristics.

Businesses wishing to learn more about space industrialization may want to obtain a free listing of the table of contents and description of IRD's report. The report itself costs \$1,285.

PERSONAL

Income Up For Retired Americans

Retirement income for aging Americans looks better than ever. A report of the Employee Benefit Research Institute, a nonprofit trade association in Washington, says comparative income levels and sources of those over 65 have been improving substantially during the past 20 years. It sees the trend continuing.

A higher percentage of workers and families will become eligible for employer pensions. At present about 34 percent of all elderly households receive employer pension plan income; the number of eligible married couples (where at least one person is age 65 to 69) will climb to 85 to 90 percent in 2004, and the percentage of single people is expected to increase to 70.

Social Security payments now go to more than 90 percent of elderly households; in 1950 only 20 percent were covered. Additionally, the average real Social Security benefit has increased by a factor of three since 1950.

Noncash, or in-kind, benefits also help; almost all receive Medicare or Medicaid, and many also get food stamps and housing assistance.

"Data indicating levels of poverty for the older population are generally overstated," says Martin Lefkowitz, an economist at the U.S. Chamber of Commerce, "because they do not include the in-kind benefits." □

PHOTO: JAMES A. SUGAR—WOODFIN CAMP



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NB06/82

TWO MASSIVE STATUES, each depicting a man using his bare hands to restrain a wild horse, stand outside the Federal Trade Commission building in Washington. The man represents the FTC. The wild horse is business.

Today, inside the agency's gray walls, roles have been reversed. The FTC's new chairman, James C. Miller III, has strong business support in his determination to bring under control an agency he thinks has run wild.

A Georgia conservative, Miller is dedicated to eliminating unnecessary government regulations and ending the confrontation between his agency and business. He wants to replace that with a healthy dose of cooperation and common sense.

"If I have a bias, it's toward less government rather than more," says Miller, an economist who took over last fall after serving as executive director of the Presidential Task Force on Regulatory Relief. He was also head of the administration's transition team for the FTC. "Anywhere we can achieve the objective of regulation at lower cost, with less intrusion into people's lives, we should be quick to do that," he says.

Miller's efforts to achieve that objective at the FTC will be watched closely by business for signals about the future of Reagan's campaign to roll back government regulation generally. Even though Miller heads only one of many regulatory agencies, his background and the FTC's high visibility among federal agencies combine to give him a pivotal role in the regulatory-reform drive.

As operating chief of the President's task force, Miller was field commander of the Reagan deregulation drive and considered the administration's foremost authority on regulatory relief.

Now he heads one of the oldest, most powerful and most controversial of all federal regulatory agencies. From the private-sector perspective, the FTC in recent years had become a classic example of an agency dominated by overzealous administrators more interested in harassing business than in evenhandedly enforcing the law.

Miller, who volunteered for his assignment at the FTC, says it is "still

living with the legacy that it's an arrogant agency that kicks people around."

He adds, "I saw a challenge in turning it into a responsible agency."

Created in 1914, the FTC was given the broadest possible mandate—action against "unfair and deceptive" trade policies. At its peak staff in 1979, it had 1,779 employees, including 637 lawyers. Today the FTC has been cut to 1,543 employees, 529 of them attorneys.

The bitterness of debate over the agency's role was dramatized in 1980 when Congress let the FTC budget lapse, and the agency was technically out of business for a short period. That action was viewed as a dramatic sign that Congress had lost patience with agencies it felt were going beyond their charters.

Much of the animosity was due to the policies of Michael Pertschuk, who preceded Miller as chairman during the Carter administration and is still a member of the FTC. A former Senate Commerce Committee counsel, Pertschuk was the architect and moving force behind many of the FTC's controversial activities that earned it the nickname "the National Nannie."

His targets included used-car dealers, funeral directors, the oil industry, food chains, makers of breakfast cereals and advertisers of products aimed at children. In a reaction to the Pertschuk approach, Congress passed the FTC Improvements Act of 1980, which included provisions limiting specific investigations and giving Congress power to veto new FTC regulations. But



Reining In The Regulators

By Bob Gatty



James C. Miller's policies are a far cry from those of his predecessor as Federal Trade Commission chairman, Michael Pertschuk (left).

A former field commander of the Reagan deregulatory campaign now heads the powerful FTC and intends to make it "a responsible agency."

Miller sees a need for more basic changes.

Rather than coming to Congress requesting more money to launch more investigations and develop new regulations, he has asked Congress to cut his budget.

And he is seeking legislation to limit the FTC's authority to police business practices.

Miller recently told the Senate Commerce, Science and Transportation Committee that a majority of the five-member commission believe the FTC needs a clearer legislative standard for determining just what practices are "unfair." He also said it was his personal view that the agency's jurisdiction in questions of alleged deception needs legal definition, too.

A definition of unfairness, Miller said, should include these elements:

- The consumer injury should be substantial and involve "objective harm rather than subjective forms of harm."
- Injury from an allegedly unfair act or practice should outweigh its benefits, and costs and effectiveness of possible remedies should be considered.
- The harm must be one that consumers could not reasonably have avoided.

"The commission should confine its activities to curbing behavior that takes unfair advantage of consumers' inadequate knowledge in reaching a decision or their inability to protect themselves from such behavior," Miller testified.

He also urged Congress to define what constitutes deception and recom-

mended that the commission be required to find that the challenged act or practice materially injures consumers. He said deception should be measured by whether consumers with a reasonable amount of common sense—not just any consumer—are likely to be deceived. Miller said deceptive representations of fact, but not mere statements of opinion, should result in prosecution.

Currently, the FTC needs to prove only that the advertisement in question has a "tendency or capacity" to deceive.

MILLER'S PROPOSALS are similar to those advanced by the Chamber of Commerce of the U.S. and have been endorsed by other business organizations, including three advertising trade associations.

"While the Chamber applauds the emphasis on economic analysis and the respect for market forces brought to the commission by Chairman Miller and his staff," said Martin F. Connor during Senate committee testimony, "we cannot ignore the prospect that those contributions may be nullified in the future." Connor is Washington corporate counsel of General Electric Company and a member of the FTC Subcommittee of the U.S. Chamber's Council on Antitrust Policy.

Miller is hopeful that Congress will adopt the proposal made by a majority of the commission to codify the standard for unfairness. "In fact," he says, "I'm fairly confident it will."


He is not so confident about chances for success on his deception proposal, which had not been actively sought by the advertising groups most affected. But he defends his position.

"It's just a very simple point," he says. "The FTC has brought cases on grounds of both unfairness and deception. And just because you tie our hands on unfairness, it doesn't mean we can't pull the trigger with deception."

Pertschuk predicts Miller won't get his complete package through Congress, although he admits he might get something.

"It's rare," says Pertschuk, "that the agency chairman and all the trade associations are allied. It gives him a running start."

Rep. James J. Florio (D-N.J.) charges



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Miller rates a chauffeur, but he sometimes motorcycles to work. (See page 32.)

that Miller's proposals would "effectively diminish the FTC's capability to protect consumers." In fact, says Florio, chairman of the House Subcommittee on Commerce, Transportation and Tourism, "some of these proposals are so radical that an argument can be made that they would cause the FTC to almost close up shop."

CONSUMER ADVOCATES also argue that Miller's proposals would make it tougher for the agency to protect consumers. "All the unfairness proposal does is benefit lawyers," says Jay Angoff, an attorney with Congress Watch, a consumer advocacy lobbying group. "His deception proposal is much more harmful. It would make it very difficult, if not impossible, to prohibit misleading advertising."

Florio cautions that unless a compromise can be reached, Congress is unlikely to approve an authorization bill modifying the FTC's powers at all and probably will simply extend its current authority.

Meanwhile, the chairman of the Senate Commerce Consumer Subcommittee, Sen. Robert W. Kasten, Jr. (R-Wis.), has developed legislation limiting the FTC's powers regarding unfairness. But sources close to the senator say he has reservations about Miller's proposal on deception. The fact that the two other Republican commissioners at the FTC, David A. Clanton and Patricia P. Bailey, have also expressed opposition to the proposal won't help Miller's chances

for success with it, either.

Miller, Pertschuk and Florio all agree on one key congressional issue involving the agency—a proposal advanced by medical, dental and legal groups to exempt the professions from the FTC's antitrust authority. They don't like it.

Florio and Pertschuk call the proposal "a serious threat to the commission." Miller told Florio's subcommittee that the agency could not accomplish its mission of fostering a competitive marketplace free of unfairness and deception if a significant sector is exempted from antitrust enforcement.

"If professionals, immune from FTC law enforcement, are allowed to enforce restrictions that block free consumer choice," Miller told the congressmen, "the evidence

is strong that prices will be artificially raised and consumers will thereby suffer direct and tangible injury."

Miller notes that such activities might involve pressure from professionals to block competition from other members of their professions.

"It's expected behavior of any group to want to maximize the demand for their services," notes Miller. "If you do so by eliminating competitors, the question is whether that's in the public interest."

The new direction Miller is taking at the FTC follows the philosophy of the Reagan administration. "If you're going to regulate," says Miller, "make sure you have adequate information, make sure the benefits in some way exceed the cost and make sure you choose the least costly way."

He argues that the FTC in the past has embarked on misguided missions without sufficient information, often to capitalize on public sentiment against specific industries. As a result, he says, cases have dragged on for years. An antitrust case against the nation's eight largest oil companies lasted eight years before it was dismissed. An antitrust case against the three largest cereal makers continued for 10 years before it was scrapped.

Miller describes such delays as "cruel and unusual punishment" of the industries involved. "With good cause," he says, "the FTC has been viewed as the lightning rod for antiregulatory sentiment on the part of business."

He also contends that in past years the FTC concentrated too much effort on issues involving alleged antitrust violations in the distribution chain, such as the practice of resale price maintenance, whereby manufacturers require retailers to sell their products at a certain minimum price.

SHORTLY AFTER assuming control at the FTC last September 30, Miller told a news conference, "Back in Georgia, you didn't go squirrel hunting in a cornfield; you didn't go looking for rabbits up a tree." The chairman explains:

"What I meant was that we shouldn't really be spending resources in areas that don't result in significant consumer harm. Instead, we should be focusing on practices that have a potential for seriously affecting the public. What we need is a good dose of common sense."

Although one of Miller's fellow commissioners, Clanton, doesn't completely agree with the chairman's approach to resale price maintenance, he recently told a group of reporters that the agency must husband its resources and focus on those problems "that can't be



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solved by competition in the marketplace."

Antitrust behavior that will cause the most serious consumer problems, says Miller, will most likely be uncovered in horizontal mergers, those between firms at the same level in the distribution chain.

He wants the agency to return to more traditional types of antitrust cases, he says, noting that under his chairmanship the commission sought to prevent Mobil Oil Corporation from taking over Marathon Oil Company, a horizontal merger. The FTC did not oppose Marathon's subsequent acquisition by a company in another industry, U.S. Steel Corporation.

Early in 1982 there were reports of efforts within the Reagan administration to strip the FTC of its antitrust activities and give the Justice Department's Antitrust Division sole jurisdiction over antitrust enforcement. The efforts reportedly were blocked in Congress.

But Miller believes there is room for improving the system that determines which agency handles which cases, a system that now relies mostly on tradition.

Since the FTC is an "expert body" composed of members skilled in economics as well as antitrust law, he argues that more complex problems requiring expertise in those areas should be referred to his agency. Clear-cut cases ("Either they did it or they didn't") should be handled by Justice, he contends.

Miller says he wants to improve the atmosphere between business and the agency and contends that something that might be good for business is not automatically bad for consumers. "It was that good-guys-vs.-bad-guys perception that Mike [Pertschuk] brought to the commission," says Miller.

HE ALSO WANTS to end the uncertainty that exists when FTC policies are unclear. "If you're going to be a bully with a great deal of power, you ought to tell when you're going to use your power and when you're not," he says.

The agency is therefore developing rules and protocols that will provide more detail on its policies.

Pertschuk argues that Miller's conservative approach will generate a backlash in Congress and among the

public that eventually will be felt in decisions on Capitol Hill and at the polls on Election Day.

"For the most part, I don't agree with what he's doing," says Pertschuk. "But obviously he's a man of integrity with a vision of the agency. I have a vision of the agency, too. Our visions are simply different, that's all."

Says Pertschuk, "The perception that the agency is here to do what business wants doesn't fit with what the public wants. The public wants a strong restriction on bad business behavior, and it doesn't like the idea of business having control over government."

In fact, Pertschuk describes Miller and his staff as "trust trusters, not trustbusters."

Miller disagrees with Pertschuk's backlash assessment. Although he denies that any of his actions are taken with an eye on the coming congressional elections, he agrees that they could have political implications.

"I very much believe, however, that the things we're doing are in the interest of consumers as well as business people," says Miller. "Any time you can make the economy work better, everybody benefits." □



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A Regulatory Reformer's Private Side



Miller and his wife, Demaris, fight the Washington blues by weekending at a cabin in Virginia's Blue Ridge Mountains.

HE SITS on the stoop of his one-room, century-old log cabin high in Virginia's Blue Ridge Mountains. A heavy-set, balding man of 39, he talks about his ideas of government and the need to reduce regulations. He comes here to Flattop Mountain with his wife and three children to get away from the whirlwind of Washington and the pressure of his job as chairman of the Federal Trade Commission.

In Washington James C. Miller III has the reputation of a tough reformer, someone whose almost single-minded purpose is to chop away at government regulation. Indeed, that is the public side of Jim Miller.

But sitting on the stoop of his cabin 150 miles from the capital and looking out over Flat Gut Run, Miller doesn't remind you at all of a government bureaucrat.

"Daddy, tell them about the time I scowled at President Reagan," says his blonde 9-year-old daughter, Sabrina, as she throws her arms around her father. Miller launches into a story about how he took Sabrina to the White House to greet the President when Reagan returned from the hospital after the attempt to assassinate him last year.

"I held on to her hand real tight," says Miller. "There was all that security. I could just see her running out to shake his hand and getting mowed down by a machine gun."

But Sabrina, an independent-minded youngster, resented her father's restraints. When Reagan walked by and waved at Sabrina, she scowled. Reagan waved once more.

"Come on, Sabrina," Miller pleaded through gritted teeth. "That's the Pres-

ident. Please wave to him." After all, Miller says, he was working at the Office of Management and Budget, and here his daughter was refusing to wave to the President.

"Finally," he says, "she managed a tiny wave. But she still scowled."

"Daddy," Sabrina continues, "tell them about..."

Family is important to Jim Miller. He and his wife, Demaris, married young: He was 19 and a sophomore at the University of Georgia, and she was 18 and a freshman. Besides Sabrina, they have an adopted daughter, Katrina, 12. Their son, Felix, 11, was named for Miller's grandfather, a blacksmith.

"The home my mother grew up in was not much bigger than this," Miller says, pointing to the tiny log cabin with its wood-burning stove and its sleeping loft. Today his mother operates Annie Miller Realty, a real estate agency in Conyers, Ga., where he was raised. His father recently retired as a Delta Air Lines pilot.

After graduating from the University of Georgia with a degree in economics, Miller earned his Ph.D. in economics from the University of Virginia in 1969 and taught briefly at Georgia State University.

He co-authored a definitive work on the all-volunteer Army during the Vietnam War and, much to his father's dismay, a treatise on deregulating the airline industry.

He came to Washington late in 1969 as a senior staff economist at the Department of Transportation. From September, 1972, until June, 1974, he was an associate professor of economics at Texas A&M University.

Then he returned to Washington, serving as senior staff economist on the Council of Economic Advisers until October, 1975, when he was appointed assistant director for government operations and research at the U.S. Council on Wage and Price Stability.

He left government to become resident scholar and codirector of the American Enterprise Institute's Center for the Study of Government Regulations from 1977 until 1981. Then he joined the Office of Management and Budget as administrator for information and regulatory affairs, and he also served as executive director of the Presidential Task Force on Regulatory Relief.

"I don't feel limited because I'm an economist serving as the head of what is basically a lawyers' agency," says Miller. "I think we need somebody there who understands the economic implications of regulation."

Miller deals with complex issues on his job. That's why he likes to get away from it all, chop a little wood, maybe fix the roof or clean out some brush.

In Washington, Miller rides a motorcycle for recreation and occasionally to work, even though as FTC chief he rates a car and a driver.

"It's great fun," says Miller. "I started riding to work when I worked at the Council of Economic Advisers. Parking a car was too expensive."

The other day, on Pennsylvania Avenue near the FTC building, FTC employees arriving for work got a chuckle.

There was their boss, the stern Chairman Miller, putt-putting into the FTC garage driveway on his Kawasaki, a big grin on his face. □

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Our Ebbing Maritime Industry

An uncaring government. Unfair foreign competition. High costs. Those are among the reasons we could lose a national asset.

By Tony Velocci

AMERICA is the world's largest trading nation—but you'd never know it judging by the amount of international commerce that is moved by the U.S. merchant marine.

After more than 30 years of federal government neglect and slow deterioration, the maritime industry now operates at an all-time low, and the U.S. is in danger of losing it altogether. Consider these facts:

- Thirty years ago some 4,000 U.S.-flag ships plied world trade routes; barely 500 are expected to constitute the fleet by the end of 1982.

- Less than 4 percent of the nation's shipborne foreign commerce is carried by this country's merchant marine, compared with nearly 60 percent in 1948.

- The U.S. has barely enough mer-

PHOTO: OGDEN CORPORATION

THE FLAG SIGNIFY A CHANGE OF COURSE.



U.S. shipyards like Maine's Bath Iron Works (left) are building fewer merchant ships than ever. One result: The skilled work force is shrinking drastically.

chant cargo ships to support a major deployment of American armed forces overseas.

- Oceangoing vessels in the U.S. merchant fleet average about 18 years of age; shipbuilders and ship operators generally say a ship's life span for safe and cost-effective use is 25 years.

- Of the 11 American yards now building merchant ships, seven will exhaust their order books by the end of this year, and the backlog in the remaining four will be only eight vessels.

"The maritime industry is in a precipitous decline that shows no sign of stopping," says Herbert Brand, chairman of the Transportation Institute, a nonprof-

NATION'S BUSINESS • JUNE 1982

it education and research organization in Washington. Adds a high-level administration source: "There is a profound lack of awareness concerning the seriousness of the problem."

That is not surprising considering the results of a 1981 national survey conducted by Opinion Research Corporation. ORC asked the public, "How much have you heard or read about the size and condition of the United States merchant shipping fleet?" Results: little, 45 percent; nothing at all, 38 percent.

The U.S. merchant marine is defined as those commercial cargo ships that are majority-owned by American companies and registered in this country, hence flying the American flag. By law, such vessels must be completely manned by American citizens.

Besides these ships' potential mili-

president of the National Maritime Council. In a crisis, explains Del Mar, there is no guarantee that foreign-flag vessels would continue to transport essential materials to the U.S.

Shipbuilding is as necessary a component of the maritime industry as a rudder is to any vessel; it provides the country with a mobilization capability that could not otherwise be counted on. But that component, too, is rapidly diminishing. The number of skilled shipyard workers devoted to merchant ship construction has dwindled from a peak of 35,000 in 1976 to 10,000 today.

Implications of that decline for the resurgence of the U.S. merchant marine are staggering. The Shipbuilders Council of America estimates that the cost of laying off, rehiring and then retraining one qualified shipyard jour-

rate earnings, \$1 billion in federal tax revenues, and \$500 million in state and local taxes.

Moreover, when U.S.-registered vessels are used in lieu of foreign-flag ships, approximately 71 cents of each transportation dollar is returned to the U.S., according to the National Maritime Council.

But the U.S. does not make sufficient use of its merchant fleet to reap much of that reward. Indeed, the amount of cargo carried aboard American-flag ships is meager. In 1970 more than 770 million tons of cargo, valued at more than \$293 billion, passed through American ports, according to the National Maritime Council. The U.S., which is the world's largest trading nation, handled less than 10 percent of it.

The maritime industry's contribution to the economy will dwindle as the industry continues to founder in what seems to be a sea of problems.

FIRST, THERE IS the long-standing absence of a comprehensive national maritime policy. Domestic operators and builders say this has discouraged potential investors in the U.S. merchant marine and encouraged foreign competitors.

As Transportation Institute Chairman Brand puts it, "The only time the U.S. has shown real concern about the status and future of its merchant marine has been during a national crisis."

When President Reagan was campaigning for office in 1980, he pledged to develop a naval and merchant marine program that would stimulate the maritime industry. If anything, the industry is worse off today than it was then. Two large shipping lines have gone out of business, and others are in danger of folding.

Second, there is the myth of open markets in international shipping; they don't exist. The U.S. is alone in extending free access to its trade routes, letting foreign fleets compete with American-flag ships for the lucrative U.S. market.

Foreign competitors have elaborate laws requiring that varying proportions of certain cargoes be carried on ships flying their flags. For example, France specifies that two thirds of all oil imports and half of all coal imports be transported on French bottoms. Mexico requires that its exported oil be carried only on Mexican ships.

American cargo reservation policy is restricted to noncommercial, military



Foreign nations' trade discrimination is squeezing U.S. shipping out of much of the world's cargo trade, says Delta Steamship Lines President Andrew E. Gibson.

tary value (see page 37), there are other reasons a healthy merchant marine is vital to the United States. First, competition from America's ships discourages foreigners from charging inequitable ocean freight rates.

Also, a healthy merchant marine can enable the U.S. to conduct foreign commerce in times of international turbulence. At its present level, the American cargo fleet provides no such assurance. Less than 2 percent of certain critical materials, including tungsten for missile components, and only 3 percent of oil imports are carried aboard U.S.-flag ships.

"In an increasingly unstable world, this dependence courts disaster," says Maj. Gen. H.R. Del Mar, USA (Ret.),

neymen is about \$25,000. The administration's five-year plan to add another 133 ships to the Navy, which would involve supply of some components by builders of merchant ships, is expected to be of only marginal help, and even then any residual benefits to commercial yards are at least two years away. Industry analysts warn that without more merchant ship construction, the Navy program will be insufficient to preserve the overall shipbuilding base.

The maritime industry represents a vital economic asset. In 1978 the Maritime Administration conducted a study to determine the industry's economic impact. That year it accounted for approximately 480,000 jobs, \$4.5 billion in personal income, \$1.5 billion in corpo-

and government-generated cargoes. And even that does little good; the policy is routinely ignored by government agencies.

One of the newest forms of cargo preference among foreign competitors is "zonalism," in which two nations in the same region agree to a 50-50 sharing arrangement. For instance, Ecuador has such an arrangement for certain cargoes with several other South American countries. For "outside" nations' ships operating in the zone, the consequences can be devastating.

"We have lost virtually all the cargo we once would have carried from Brazil and Argentina to Ecuador on our service running from the U.S. West Coast, and virtually all the cargo between Panama and Ecuador along our East Coast," says Andrew E. Gibson, president of Delta Steamship Lines, most of whose business involves South American trade routes.

American-flag ship operators, moreover, are subject to numerous laws and regulations, including antitrust strictures that do not apply to foreign competitors. Higher insurance and maintenance costs and inflated prices for raw materials have put U.S. companies at a further disadvantage.

Operators and builders alike argue that safety-oriented construction and equipment standards are far too restrictive, needlessly inflating the cost of each new ship an estimated 14 to 16 percent. And if a U.S.-flag ship is repaired in a foreign yard, the U.S. government charges a 50 percent duty on the repair bill when the vessel is returned to this country.

Those factors have helped encourage the proliferation of flag-of-convenience vessels—ships that are owned by American companies but registered in other countries. In 1977, the last year for which official data are available, 58 U.S. firms controlled 436 oceangoing vessels, mostly tankers, registered in Panama, Honduras and Liberia. The numbers are probably much larger now.

The bottom line is money. Foreign registry enables owners to have ships built abroad at much lower prices and to obtain a broader range of government aid from foreign governments. The safety standards are looser. The

ships can be manned by less expensive foreign crews, and the vessels are not subject to American tax laws. But the assumption that they can be counted on in time of emergency has never been tested.

By number of ships, the U.S. has the world's 11th largest merchant fleet. The six largest belong to Greece, with 2,928 vessels; the Soviet Union, 2,530; Panama, 2,437; Liberia, 2,271; Japan, 1,762; and Great Britain, 1,056.

Ranked by ship size, expressed in deadweight tons, the U.S. is eighth. Liberia is at the top of the list, followed by Greece, Japan, Great Britain, Norway and Panama.

In 1950, the United States' merchant fleet dominated world shipping, ranked both ways.

CONGRESS has authorized direct subsidies to American shipyards and carriers to make up the difference between the higher cost of building and operating ships in the United States and the costs of foreign competitors. The ship must be U.S.-

1962, but U.S.-owned companies have ordered more than 300 ships from abroad in the past decade. Some countries offer extraordinary financing packages—interest rates as low as 7.5 percent, for example—to entice international business.

Such hard-to-beat assistance has prevented American shipyards from achieving cost parity with foreign competition, even with the help of direct subsidies, say industry executives. Ship operators, too, complain that the insufficiency of direct subsidies prevents them from achieving parity. Further, a recent General Accounting Office study of the subsidy program concluded that requirements imposed on U.S.-flag operators actually increase costs and "create other disadvantages" that tend to negate the competitive position the program is supposed to provide.

Because of the scarcity of new orders, U.S. shipyards have found it impossible to build vessels with economy of scale. "You can't improve productivity and efficiency when you're in the business of onesies and twosies," says

Edwin Hood, president of the Shipbuilders Council of America.

A surplus of commercial vessels worldwide has exacerbated the position of American builders. In the early 1970s scores of new tankers and dry-bulk carriers were built on the assumption that they would be kept busy. Following the 1973 Arab oil embargo, a global recession set in, idling much of the world's merchant fleets. High interest rates have worsened the situation.

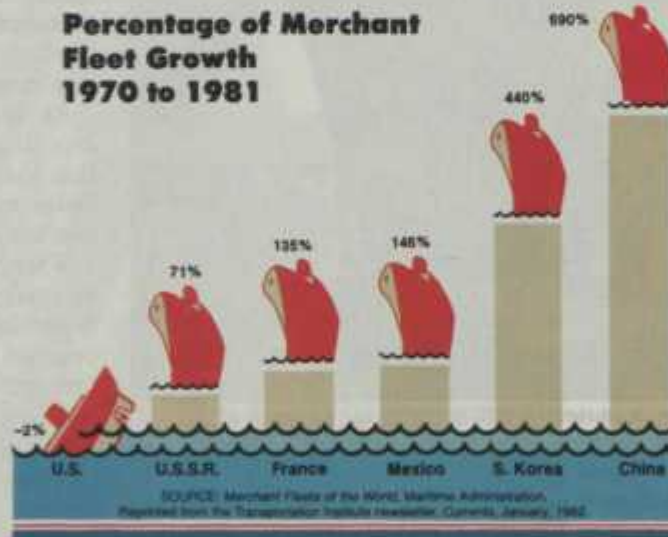
Finally, a growing chorus criticizes U.S. operators for not running a tight ship. Chief cause of inefficient management, it's argued, is the subsidy system itself.

"We cannot make the American fleet competitive by continuing to spend some three fourths of a billion dollars a year to subsidize its inefficiencies," charges Allen R. Ferguson, president of the nonprofit Public Interest Economics Center.

Sea-Land Industries Investment, a subsidiary of R.J. Reynolds Industries, the only nonsubsidized U.S. carrier and the most profitable one, supports gradually phasing out the direct subsidy system to force the industry to be more efficient. "Without a tougher industry,

continued on page 38

Percentage of Merchant Fleet Growth 1970 to 1981



China's fleet has grown faster than any other, but it is still much smaller than the largest fleet, Greece's.

built and U.S.-registered to be eligible for aid. Last year payments exceeded \$700 million.

While other nations are beefing up their subsidy programs, the U.S. is scaling its subsidies down. For example, mortgage guarantee funding for new ships has been slashed, and construction subsidies have been eliminated through 1983.

Result: U.S. firms are looking to take their ship-buying business abroad. No foreign ship operator has bought a commercial vessel from a U.S. yard since

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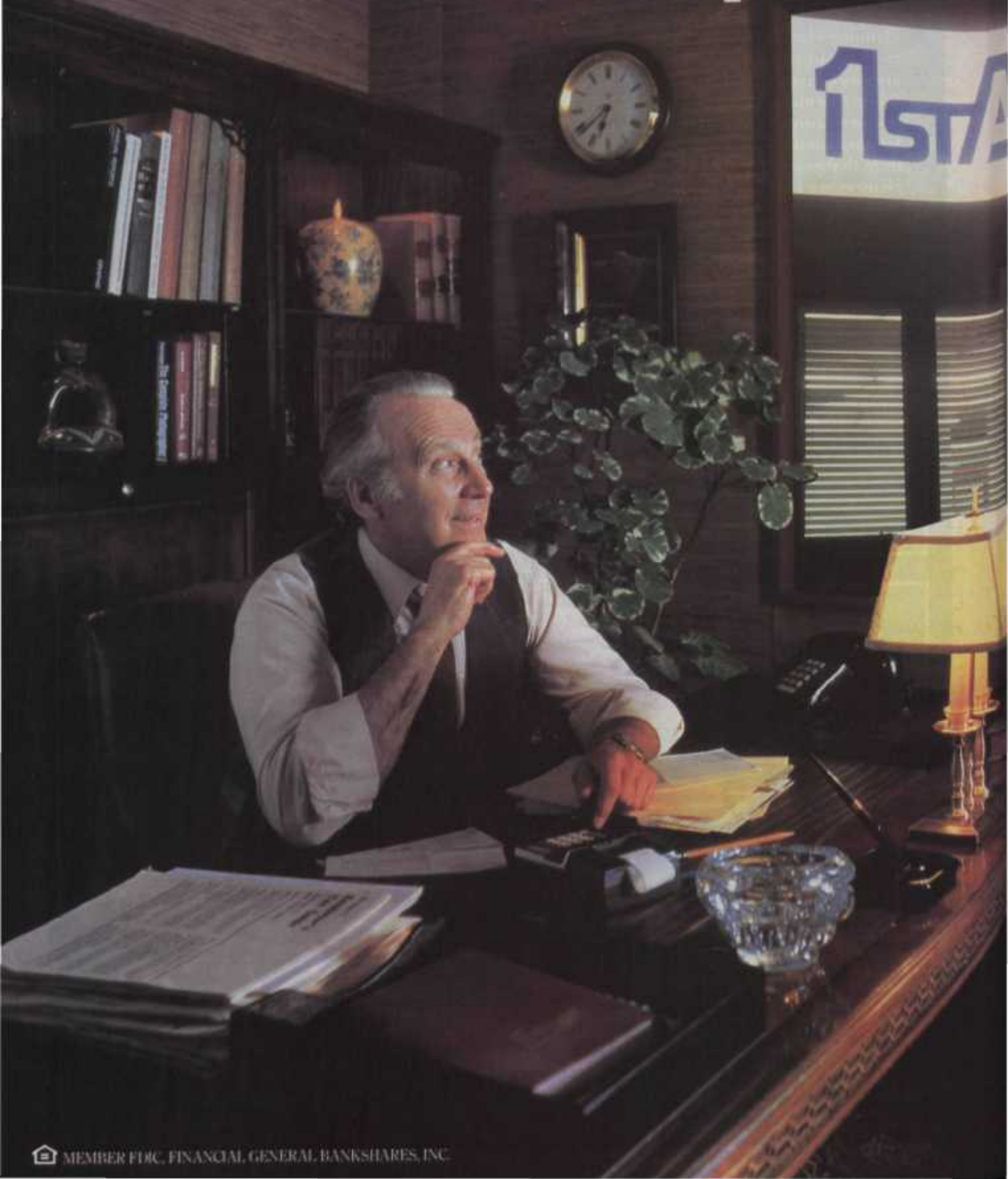
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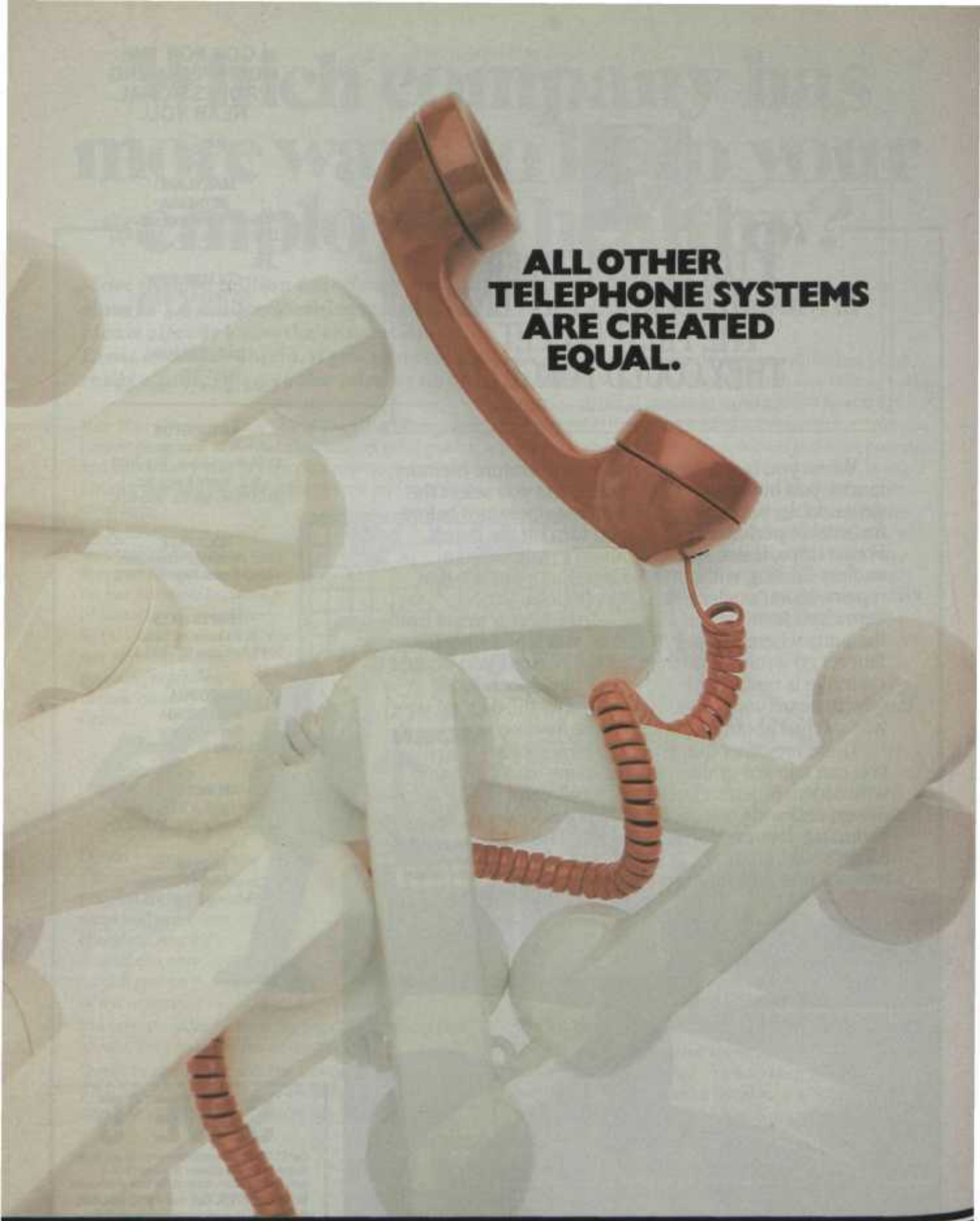
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A merchant marine short on dry-cargo ships would have a tough time supporting deployment of U.S. fighting forces overseas.

Flabby Maritime Muscle: A Military Weakness

DOES THE United States have the maritime muscle to meet its essential defense needs without sinking the maritime industry?

Probably not. Vice Adm. Kent J. Carroll, USN, head of the Military Sealift Command, says the country "faces disaster" if it doesn't come up with a policy that will restore the maritime industry to vigorous health.

"The merchant marine is so spartan that we cannot meet projected worldwide military demands without a massive commitment of our allies' resources," he says, "and we can't be sure that an emergency will be in an area where we can count on our allies."

Yet Adm. Thomas H. Moorer, USN (Ret.), former chairman of the Joint Chiefs of Staff, notes that every U.S. battle plan "assumes at the outset" that the U.S. will control the seas and have the ships necessary to support American fighting forces.

America's Navy and merchant marine are complementary in time of war. Warships, guarding the sea-lanes, protect merchantmen and cargo, while civilian ships help transport troops and supplies.

In the past, the merchant marine played an indispensable role in American military operations. Merchant ships carried 80 percent of the 25 million tons

of supplies needed in the Korean War. And between 1965 and 1972 more than 65 percent of cargo bound for U.S. forces in Vietnam and elsewhere in Southeast Asia was transported aboard merchant vessels.

During the Korean War an average of 400 dry-cargo ships were used to sustain American forces, representing roughly 17 percent of all militarily suitable cargo vessels that this country had. At the time, 2,400 such vessels were available from three sources: the National Defense Reserve Fleet, which is administered by the Maritime Administration and consists primarily of ships in mothballs; the Navy's Military Sealift Command nucleus fleet; and the U.S. merchant marine.

If the U.S. got into a conventional war today that was similar in dimension to the Korean or Vietnam conflicts, shipping would again be vital. It would take three days' continuous operation of the nation's entire airlift capacity to deliver the amount of materiel provided by the arrival of a single dry-cargo merchant ship.

At least 350 militarily suitable dry-cargo ships would be required on a continuous basis to supply U.S. fighting forces. That represents about 81 percent of the 430 that are available from the three sources.

National defense authorities, after assessing the shipping available from the other two sources, say the merchant marine would have to contribute a minimum of 180 of its 247 dry-cargo ships. Government and maritime industry sources say this would be tantamount to abandoning most international trade routes and allowing foreign competition to fill the void.

Adm. Carroll offers an explanation of why the nation lacks the military support capability it once had.

First, there is plain national apathy, he says. The National Defense Reserve Fleet has declined from more than 2,400 vessels of all types during the early 1950s to about 170 ships today, of which 129—remnants of the Victory ship fleet built in World War II—are obsolete.

There has also been a decline in the Military Sealift Command nucleus fleet from 116 militarily useful dry-cargo ships during the Korean War to just six now. And the merchant marine has dropped from 4,000 vessels of all types to the 500 level. (The Soviet Union, in contrast, has greatly expanded its merchant marine, which totals more than 1,700 vessels.)

Second, over the past decade the U.S. has concentrated almost exclusively on NATO-oriented defense plans that call for defending against a massive invasion of Western Europe by Soviet and Warsaw Pact forces. The focus has been on a short war, with emphasis on airlifts and prepositioned supplies.

The Vietnam War and recent events in the Middle East "proved the wisdom of abandoning" NATO-war-only thinking, Adm. Carroll says.

Transportation experts say the nation must (1) provide enough work for American shipyards so they will be able to meet requirements in a national emergency and (2) act decisively to maintain a viable merchant marine that can support the military's sealift needs anytime anywhere.

The maritime industry, which includes both builders and operators of merchant vessels, is highly specialized and labor-intensive. For this reason, say government and business sources, if it goes down the tubes, it won't be resurrected quickly, even in time of utmost need. □

The New Tax Law: What's in It for You and Your Business

Even "non-specialists" can understand and make the most of the Economic Recovery Tax Act of 1981 with this guide. Just published by the U.S. Chamber's Tax Policy Center experts, the concise booklet targets effective date charts, highlight chapters on the important changes for small business, individual savers and investors, depreciation and related business provisions. #6504, 1-9 copies, \$3.00 ea.; 10-99, \$2.50 ea.; 100 or more, \$2.00 ea. U.S. Chamber of Commerce, P.O. Box 114, Kensington, Md. 20795.

(Please make checks payable to U.S. Chamber of Commerce, and add appropriate sales tax for deliveries in D.C. and California.)

28

YEARS OF EMPLOYEE BENEFITS COMPARED

Employee Benefits Historical Data: 1951-1979. A new publication that summarizes 28 years of employee benefits data gathered by the U.S. Chamber. It shows where benefits vary—by industry, by region, and by size of company... the patterns of growth, changes in average amount of dollars spent per employee. Useful for business writers as well as benefits administrators. #6460, 1-9 copies, \$12.00 ea.; 10 or more, \$10.00 ea. Make checks payable to (and order from) Chamber of Commerce of the U.S., P.O. Box 114, Kensington, Md. 20795. (Please add appropriate sales tax for D.C. and California deliveries.)

continued from page 36

the competition will pick us off one by one like cherries," says a Sea-Land executive. The average return on investment among U.S. carriers is roughly 2 percent. For Sea-Land, it is about 5, and the carrier has made a profit in each of its 25 years of operation.

Domestic ship operators have been slow to adapt to intermodal shipping, in which cargo is carried by a combination of transportation modes to expedite handling and permit flexible scheduling. Sea-Land, one of the pioneers of intermodal shipping, was the sole originator of containerized shipping, now widely used. The company's fleet includes 66 containerships—general cargo vessels designed to carry metal containers that are loaded by cranes from and to truck chassis, thus simplifying and speeding up the loading and unloading process.

NO MATTER how efficient Sea-Land is, though, it is only one small part of the U.S. merchant marine. The challenge is how to refloat what is clearly a sinking industry.

Business sources say maritime unions must participate in the process of restoring the industry's buoyancy. After all, argue some operators, the reason for most of the operational subsidies is to help pay for the higher wages and union-required manning of American merchantmen. According to one estimate, up to 25 percent of U.S. crew members are unneeded.

But it is uncertain how quick union leaders will be to make concessions. "We're reassessing our position, that's all that can be said for now," says Frank Drozak, president of the Seafarers International Union of North America. Drozak says that at least 1,600 seamen will probably lose their jobs in the next 18 months due to the decline in American shipping.

Until recently, merchant seamen were receiving federally financed medical care—a tradition that goes back to 1798—but Congress eliminated those funds, and the unions are now picking up the \$1-million-a-month tab. In 1980, there were 14,000 inpatient admissions of seamen and 600,000 outpatient visits under the federal program.

There is a consensus that the first requirement must be an official maritime policy that recognizes the industry's fundamental value. Less than a month ago, a spokesman for Transportation Secretary Drew Lewis said formulation of such a policy was "still up in the air."

The need to expand U.S. operators' share of world cargo is generally perceived to be the next most essential issue. Virtually all concerned parties agree that establishing bilateral shipping agreements and other cargo-sharing accords with as many nations as possible is the best way to achieve that goal. Currently, the U.S. has such agreements with only Brazil, Argentina and the People's Republic of China.

On Capitol Hill, the industry is lobbying hard for legislative actions that it believes will help revitalize the merchant marine. Among them: Develop safeguards against predatory pricing by foreign shipping and evenhandedly enforce laws that now pertain only to domestic companies.

Lawmakers are also being urged to consider new tax incentives and to increase or restore direct subsidies.

Before Congress are legislative proposals that address a range of maritime issues, from cargo preference to port development. One of the most far-reaching bills, sponsored by Sen. Slade Gorton (R-Wash.), would give U.S. operators complete immunity from anti-trust action over cargo-sharing and pooling agreements, both of which could help carriers improve efficiency. A similar bill has been sponsored in the House by Rep. Mario Biaggi (D-N.Y.).

CONGRESS has already approved a two-year trial suspension of construction subsidies that also permits shipowners to build abroad without losing all their operating subsidies. The administration is considering a package of tax incentives that would stimulate private investment in the merchant marine and, it is hoped, lure U.S.-owned flag-of-convenience vessels back to U.S. registry. Another administration proposal: Use more union labor, instead of civil service crews, on Navy auxiliary vessels.

Given the budget-related tasks still before Congress, sweeping legislative changes are unlikely this year. As for an official maritime policy, if the administration does not come up with one soon, members of Congress say they are ready to take up that issue as well. Says Biaggi: "We are prepared to go forward with developing legislation."

Whatever combination of steps Congress and the administration ultimately take, industry leaders are imploring them to be expeditious because time is running out. □



To order reprints of this article, see page 52.

Why Business Wants The Clean Air Act Changed

PHOTOS: KEN GARRETT—WOODFIN CAMP

One day soon we may finally have legislation that keeps air clean without stunting economic growth.

By Del Marth

EVERYONE hoped it wouldn't come to this—protestors milling about the Capitol wearing surgical masks, "Wanted" posters bearing the likeness of a Michigan congressman that were distributed outside the National Press Building, House committee members shouting insults at each other over procedural matters affecting their positions.

But month by month, as environmentalists and industry leaders, politicians and scientists have tried rewriting sections of the Clean Air Act, the debate has turned into acrimony.

Nevertheless, new legislation is inching its way through the House Energy and Commerce Committee, headed by the poster subject, Rep. John D. Dingell (D-Mich.). His goal is to have it on the House floor for action sometime this summer—with luck, even this month.

Dingell leads a coalition of Democrats, Republicans and industry leaders behind the Luken bill, named for its author, Rep. Thomas A. Luken (D-Ohio). The bill, to put it briefly, is designed to eliminate from the existing act cumbersome regulatory requirements and costly red tape, all the while maintaining present air standards.

But environmentalists want no part of it. Besides taking to the streets to protest what they label a "dirty air" bill, environmental groups have enlisted like-minded congressmen on Dingell's committee to shred the Luken bill before it reaches the House floor. Their steadfast position: Leave the existing Clean Air Act as is, except for some fine-tuning.

The act was passed in 1970. With its



Unemployment among blue-collar workers can be eased, Rep. John D. Dingell (D-Mich.) tells steelworkers, by the industry-backed amendments to the Clean Air Act.

subsequent amendments, it expired last September but has been kept in force by Congress until members can amend it to everyone's satisfaction.

That has become a herculean task. One reason is that the regulations implementing the current act run more than 2,500 pages, chock-full of complex chemical requirements bound in voluminous red tape. The problem is compounded by ignorance—a few experts and only a smattering of congressmen understand the entire act and how it works.

But perhaps most challenging to a consensus are the near-irreconcilable viewpoints of opposing sides. Industry leaders contend that flexible regulations, less burdensome costs and more jobs can be achieved along with clean air in a rewritten clean air act. Environmentalists favor a minimum of tinkering with the existing act, and then only to tighten regulations.

The debate has progressed to specifics. One is auto emissions.

Under present law, carbon monoxide emissions have been reduced 96 percent from those of pre-1970 cars, which had

no pollution-control equipment. Oxides of nitrogen have been reduced 75 percent. Under the Luken bill, the reductions would be 92 and 54 percent, respectively. Supporters of that measure cite those figures when rejecting claims that it would mark a major retreat from the nation's clean air goals.

According to Dingell, relaxing the emissions standards would remove an estimated \$350 worth of equipment from each car. The result, he says, would be cheaper cars and higher auto sales and therefore jobs for unemployed auto workers.

HIS CHIEF ADVERSARY on the committee is Henry A. Waxman (D-Calif.), a strong ally of environmentalists. Waxman says relaxing the two standards "will not put unemployed auto workers back on the job nor reopen closed assembly plants." He figures savings on each car for the consumer at no more than \$100, which he contends is an undesirable exchange for increased pollution.

Of course, constituencies play a role in Dingell's and Waxman's positions:

Dingell's district is plagued with unemployment in the auto industry; Waxman's Los Angeles area is blighted with smog blamed on auto emissions.

Trying to move the industry-backed Luken bill through his committee and onto the House floor, Chairman Dingell in late April suffered several defeats. The first came in a 22-19 vote to limit an extension of deadlines for communities to meet clean air standards. The Luken bill would have allowed extension of deadlines on a case-by-case basis until 1987, plus an additional six years for regions with intractable air-quality problems. Approved instead was an amendment requiring that air standards be met by December, 1987, for all pollutants.

When he failed to win approval of

amendment would allow low-sulfur coal to be burned without scrubbers.

Industry could avoid installing the costly scrubbers by switching to low-sulfur coal. But again, constituencies of congressmen enter the picture. Low-sulfur coal is abundant in Western states, so congressmen from that region favor Gramm's proposal. If Gramm gets his way, high-sulfur coal would be little in demand, and that bothers congressmen from the Midwest and East, where high-sulfur coal is mined.

As for environmentalists, they say any degree of sulfur dioxide emissions, whether from high- or low-sulfur coal, is ruinous to health and property. To them, the sulfur dioxide emissions from the burning of fossil fuels, such as coal, are a chief cause of acid rain. Sulfuric and nitric acids mix in the atmosphere and fall to the ground downwind with rain, say environmentalists, and this acid rain kills aquatic life in many of the Northeast's lakes and streams. Environmentalists also contend such emissions have a corrosive effect on human respiratory systems and on building facades.

Industry leaders, along with many scientists and congressmen, agree acid rain exists but say its cause remains open to conjecture. Controlling acid rain is a primary goal of Waxman and the environmentalists.

Waxman wanted an amendment setting up immediate controls of specific

emissions to fight acid rain; instead, the committee sided 27-5 with the Luken bill, which calls for a five-year study of acid rain. The Luken amendment also proposes providing federal grants during that period to help areas clean up from the effects of acid rain.

Following the committee's recess, Luken bill proponents have ready still other amendments, among them:

- Eliminate federal authority to withhold highway and sewer monies if a state does not achieve clean air standards by its deadline.
- Simplify rules for revising state air cleanup plans and give states more authority to approve noncontroversial changes.
- Permit the Environmental Protection Agency to use its discretion to assess a "noncompliance penalty," rather than require such a penalty, against a

state or factory that does not install pollution control equipment as ordered.

- Simplify the emission control technology requirements for a new plant locating in a polluted area.

The Luken bill, in whatever form it emerges from committee, still faces heated debate on the House floor. Meanwhile, the Senate Environment and Public Works Committee, the counterpart to Dingell's committee on the other side of Capitol Hill, wrestles with its own rewrite of the Clean Air Act.

SO FAR, the Senate committee has stayed out of the headlines. One reason is that its chairman, Robert T. Stafford (R-Vt.), wants no major changes in the existing act. He favors only tuning up what's now on the books, a position akin to the environmentalists'.

Also, unlike Dingell, Stafford is not trying to press through his committee a specific bill at which opposing sides can take aim. Instead, the Senate committee is reviewing the existing act section by section. Chairman Stafford requires anyone who wants a specific change to draft that change and then sell it to the entire committee. It is a procedure that has inhibited horse-trading, since no one knows what will be in the rest of the bill.

Stafford is determined to move onto the Senate floor a bill that has broad bipartisan support, thereby avoiding the floor fight that is likely to occur in the House. A less fractious Senate bill, he believes, will be the bill that will survive when both House and Senate try merging their efforts into joint legislation for the President's signature.

As for President Reagan, he favors the Luken bill. But the warring and lobbying surrounding the bill in Dingell's committee is sending bad vibes to the White House. The administration, mindful of the possible effect on November's elections of protracted debate over the Clean Air Act, has recently softened its rhetoric on issues dear to increasingly active environmental organizations.

Nevertheless, the administration and industry cite polls showing that Americans believe cleaner air can be achieved and the economy strengthened at the same time by making improvements to the Clean Air Act rather than adhering to the status quo.

Industry leaders in particular believe it is that position that will attract the public's support in the upcoming elections. □

NATION'S BUSINESS • JUNE 1982



An ally of environmentalists, Rep. Henry A. Waxman (D-Calif.) wants few changes in the Clean Air Act.

other amendments, including one to allow more industrial growth in Western states by relaxing visibility requirements in and around national parks and wilderness areas. Dingell decided to recess committee hearings for two weeks and at least regroup.

IN VIEW OF THE sticky going, a still more controversial amendment, proposed by Phil Gramm (D-Tex.), will be offered not in committee but when the full House begins debate. Gramm wants to eliminate scrubber requirements from the existing Clean Air Act.

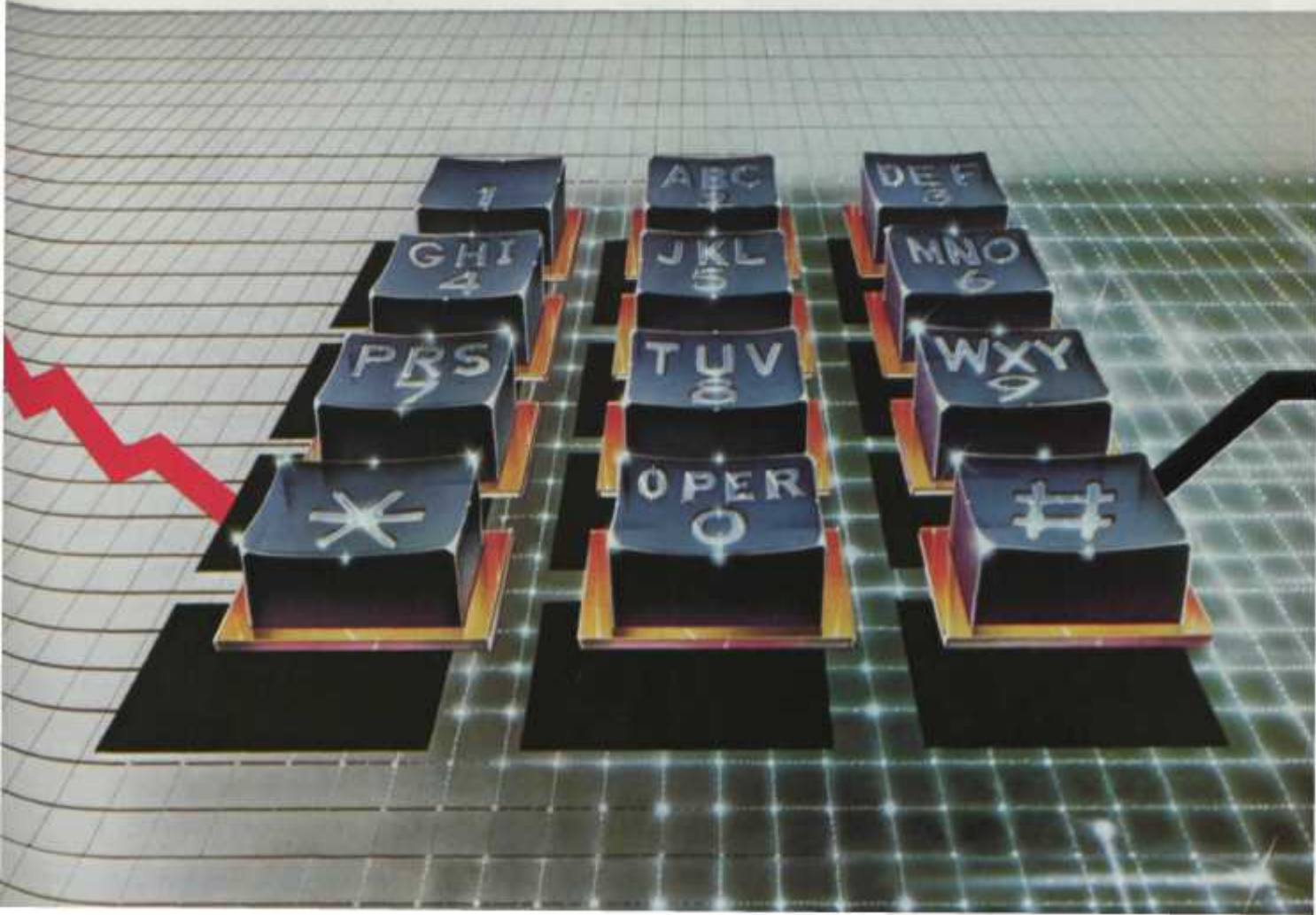
Used primarily at coal-burning utility plants and large industrial boilers, scrubbers remove sulfur dioxide from smokestack emissions. Plants burning coal with a high sulfur content need scrubbers to meet emissions requirements of the Clean Air Act. Gramm's



Bell System

The Telemarketing Manual

How to survive and thrive
in the new economic climate



In today's business climate, there's a way to get ahead of the game, using telecommunications combined with modern management techniques.

Marketing in the Age of Information Is Telemarketing.

I. The Bell network can be the path to productivity in your business.

Today, powerful forces are at work to change the way business is done. They exert a *push-pull* effect.

Companies are pushed by inflation, which cuts spending and makes competition more intense. They are pushed

Today, people don't have time. They are busy, demanding, in a hurry. Less and less do consumers find it fun to go shopping. And more and more do business people seek faster and more convenient ways to get their work done.

Enter Telemarketing

Small-, medium-, and large-sized companies have found a solution to these problems through Telemarketing.

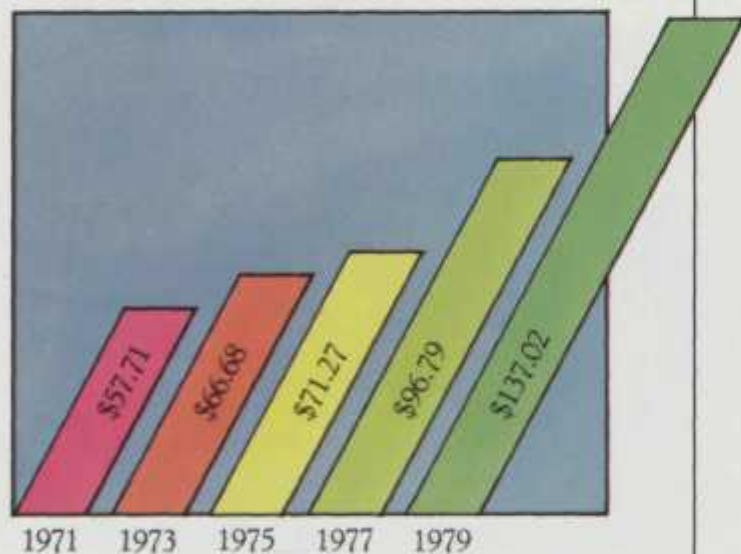
Telemarketing is a strategic plan which enhances the traditional marketing/communications mix. It does this by using telecommunications to broaden or integrate current sales or service functions.

This new approach fits into the patterns of modern, fast-paced life. It makes Telemarketing an important new element in the marketing mix for the '80s.

Information Handling and Profit

When you look at sales and service activities, you see that they are basically a matter of information handling and transfer.

In traditional selling, information about product—size, rating, color, and so forth—is transferred from salesperson to customer. It's done face-to-face. The customer transfers information back—the order. The information is organized and transferred to billing and shipping. Finally, the cycle is completed by organizing the information and putting



Increasing Cost of the Industrial Sales Call

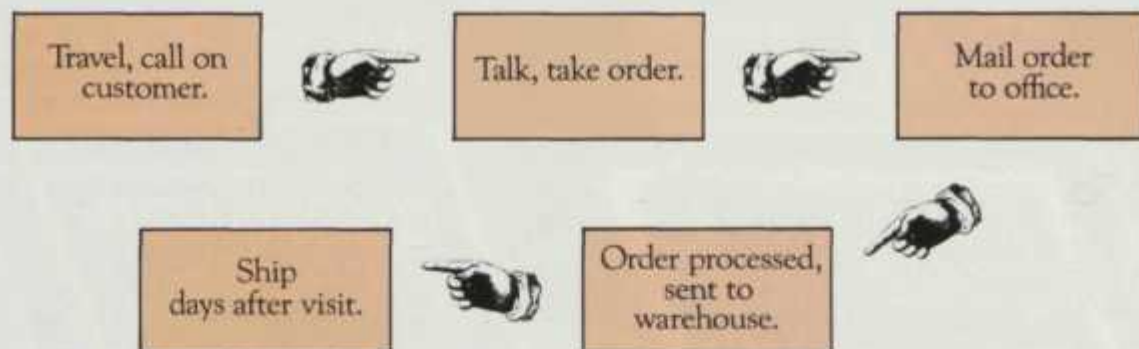
Source: Laboratory of Advertising Performance/McGraw-Hill Research

by soaring energy costs, which reduce travel. Profits go down as the cost of making the sale skyrockets. Productivity lags. Competition grows.

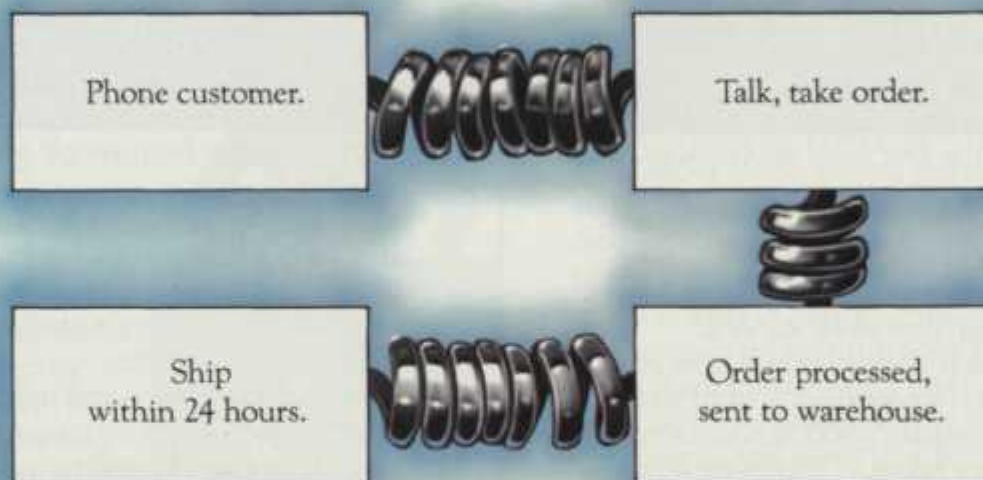
Companies are also pulled by changes in consumer and business lifestyles. Whatever market they are in, be it industrial or retail, all companies are affected.

Look At Your Business As Information Handling.

The traditional cycle



The Telemarketing cycle



it into files or a data base.

Telemarketing does the same thing—transfers information. This information transfer can be custom-tailored to support specific elements of the sales cycle.

Telemarketing can qualify leads, disseminate product information, handle orders, provide effective customer service. It can even deal with full account management. And Telemarketing programs can be targeted to specific segments of a market where sales productivity or customer relations is a key issue.

Telemarketing balances the advantages of high technology and advanced marketing with the warmth of human

contact to achieve productivity gains.

Speed and Personal Contact

The old business cycle takes a long time to be completed.

But when you sell and service through the two-way, person-to-person capabilities of the Bell network, you speed up the process. The warmth of the personal contact can be the critical difference in making the sale. At the same time, the high cost of face-to-face contact is eliminated.

To do this, you use a systematic plan which unites people, communications, systems support, marketing plans and management programs. And you do it in a space specially dedicated to the purpose: a Telemarketing center.



Telemarketing: the four basic applications. Within each, the activities range from simple to complex.

Telemarketing Centers

Walk through the Dow Corning center, and you see a large floor space divided up into work stations.

At each work station, a sales representative is accepting calls from accounts on the company's 800 Service number. Orders are taken. A computer terminal is right at hand. Information about the order is entered; inventory and shipping information is retrieved.

In the midst of this sophisticated telecommunications technology, personal interaction takes place. Sales representatives and customers are on a first-name basis. This results in customer loyalty and satisfaction.

Some companies set up centers consisting of several small offices in which people call accounts on their outward WATS lines. Instead of using computer terminals, people retrieve information from printed matter, and records are kept manually.

Telemarketing works for companies of all sizes—small, medium, large. Because different companies have different needs, Telemarketing centers are custom-designed for your company.

Technology Plus Management

At your Telemarketing center, what takes place is an integration of telecommunications technology with modern management procedures.

Your sales reps keep and refer to account records, call accounts at pre-set times, follow pre-set patterns in phone selling. You can improve their productivity and measure the total amount of revenue booked.

As a result, your business moves faster, yet you have more control. Your marketing becomes more flexible, responsive, manageable.

Telemarketing can solve the problems of rising costs and stiffer competition. But it takes a high level of management commitment to get these benefits. Telemarketing must become an integral part of the marketing operation.

Because of the benefits, the shift to Telemarketing is taking place everywhere. In today's tough business climate, it helps you to compete effectively. As a result, you not only survive, but you thrive.

II. How Telemarketing Works

Innovative solutions to basic business problems

A look at the illustration at the top of the page on the left gives you a quick idea of the different activities that take place in a Telemarketing center.

Here is how some companies handle these activities.

Order Processing

You start order processing in the traditional manner, by generating leads—through media advertising, direct mail or catalogs. These feature an 800 Service number. Customers call in to place their orders.

Ordering through an 800 number eliminates all the steps of returning a coupon, and so offers great convenience to today's busy customer. In turn, this increases business.

Many companies that sell business-to-business (such as DuPont, BFGoodrich and Olin Chemicals) are set up to take orders from customers who call in on their 800 Service number.

Consumer-oriented companies generate leads through various forms of promotion. A number of companies sell directly through catalogs, using an 800 Service number. Department stores include their phone numbers in newspaper or magazine ads and catalogs.

Your company may take repeat orders from customers on an ongoing basis. Or you may stimulate one-time orders through the use of promotions.

You can also train personnel to go beyond passive order taking, to cross-sell or upgrade orders.

The Swim Shop of Nashville, Tennessee, sells to swim teams—including school swim teams. It must pack a



major part of its sales into a short season. To do this, it speeds up the sales cycle with Telemarketing, which gives it instant order taking, instant shipment. By reducing the information-handling cycle, Telemarketing "extends" its sales season.

These companies vary in their size, products, and markets. But Telemarketing serves a function common to all of them—selling. Telemarketing is a concept that can be applied across the board to an individual company's needs.

Customer Service

Some Telemarketing centers are set up for customer service. These centers provide help when customers call in.

Customer service may be as simple as telling the prospect the location of the nearest retail dealer. This leads to sales that might otherwise be lost.

But service may be combined with selling in one center. Sales representatives can respond promptly to questions about stock, billing, shipment, and specifications. They can quickly clear up complaints, and so retain customer loyalty.

This kind of prompt, efficient service creates a competitive edge, especially when dealing with parity products. It holds down returns, prevents the loss of accounts, and turns into additional sales.

Centers can deal directly with consumer questions about the product—about shelf life, for instance. Consumer complaints can be turned into sales. A customer can be won back with samples and coupons.

One company answers questions about its appliances on its 800 Service line. By eliminating unnecessary service calls, it has annual savings in the six-figure category.

The sales of one consumer company depend on loyal customers who successfully use its products. In one year alone, its Telemarketing center handled several hundred thousand inquiries about its products. As a result, this company has built brand loyalty.

Sales Support

A Telemarketing center can support your sales force in many ways. In so doing, it increases the productivity of your sales force.

Your center can take messages when they call in. It can also make appointments. It can handle the paperwork and free up salespeople for generating new accounts, as is done for the Chemical Group at BFGoodrich.

A Telemarketing center is used by a national company that sells via personal representatives in the customer's home. When the sales representatives call in from all over the country, the center answers questions about products and order status.

Market research can support sales, and the center offers many ways to build up information. One cigarette company offered a free carton for peo-

Account Management

Account management involves assigning a sales representative to specific accounts. Using Telemarketing, the representative performs sales functions at a high level of sophistication.

Marginal account handling is a dynamic, growing activity in business today. It is based on the fact that for most companies 80 percent of their accounts yield only 20 percent of the business. These marginal accounts are often neglected; with soaring inflation and with the high cost of today's sales call, the profit per call is squeezed to a minimum. Telemarketing can change that.

For example, with Telemarketing, a greeting card company reaches remote outlets with current card selections as easily as it reaches large, urban gift shops.



ple who called in. Those who did supplied valuable data about themselves, where they live, what brands they smoke.

Once you generate a lead, should you send out a salesperson? Since an industrial sales call costs over \$137.00* this can be expensive. First find out if this is really an active lead. The center can qualify the prospect, using certain questions. What kind of business is it? How many people are employed? The questions may follow a preset procedure. The result is to direct salespeople to where the highest sales potential exists.

And more: they come armed with information about the customer's needs.

For a small food company, salespeople call thousands of small stores all over the country on Outward WATS lines. The callers take orders, upgrade orders, remind customers of monthly specials. On occasion, when a large shipment comes in, they can conduct a campaign and sell it off. This company keeps customers, because it can handle complaints promptly at the center.

Customers are told the day and time when they will be called again. This calling cycle is set to coincide with the customer's inventory cycle. When inventory is down, and they are ready to buy, the salesman calls and gets the order. Customers are grateful for the service.

*Source: Laboratory of Advertising Performance/McGraw-Hill Research.

80/20

In *consultative selling*, customers call in looking for help. Your representatives talk to the customers, ask questions, become familiar with their businesses. They discern the customer's problems and, based on your company's products, recommend solutions.

The Bell System's Telemarketing center, which we discuss further on, uses this type of selling.

Full account management links sales and service into a "one-call" unit. At Kelly Springfield Tire Company's Live Wire Telemarketing Center, the customer can place an order, find out about stock availability, check on the

status of a previous order, and get shipping and billing information. The objective turnaround time on orders is 48 hours or better, and customers applaud the fast service.

III. Bell Offers an Overall Plan

We've got total business solutions backed by end-to-end service.

It doesn't matter whether your organization is small or large. Discuss your marketing efforts with Bell, and we'll help you analyze your needs. Once we have done that, we can take you step by step and show you how to create a Telemarketing center that can fulfill those needs.

We'll show you how to plan the area. We'll consult on management procedures and training needs.

We'll also work with you on your telecommunications requirements. We'll discuss your calling needs, project





your calling volume. And we'll custom-fit Bell services like 800 Service, Outward WATS and Remote Call Forwarding to meet your sales and service objectives.

We Use It

The Bell System has a Telemarketing center. When a call comes in, one of our sales specialists uses a data terminal to suggest questions that help identify the customer's needs. Recommendations for various ways to use telecommunications to meet those needs are made.

Whether the sale is made or not, the information on the transaction is stored in the computer for later follow-up. It gives us a range of information which we can use in a variety of ways.

Says John Wyman, Vice President of Marketing for AT&T Long Lines: "Bell's Telemarketing center has proved to be very successful in reaching customers. It has become a dramatic demonstration of the enormous power of the Telemarketing concept."

Other companies testify to the power of Telemarketing.

For example, M. Donald McClusky, Vice Chairman of The BFGoodrich Company, talks about how the Goodrich center responds to the customer's needs. "Telemarketing provides us with a competitive edge," he says. "It's an

efficient, economic way to handle a very important part of the business."

The Future Is Now

The Bell network's advancing technology fits in with today's hurried consumer. It matches the needs of today's business, which is both pushed and pulled by heavy economic and social pressures.

It works no matter what the size of your company—small, medium, large.

Telemarketing operates through the Bell network. It lets you retain personal interaction while improving sales productivity, reducing costs, providing better services.

It's the way to solve marketing problems in the Age of Information.

It's where the future is—right now.

For Telemarketing help and advice, call the Bell System Sales Center at

1 800 821-2121

In Missouri, call 1 800 892-2121. Or talk to your Bell System Account Executive.

The knowledge business



IRAs

Are Off to a Running Start

By Michael Thoryn

THE JANITOR was busily setting up for the company-wide information meeting on Individual Retirement Accounts. "Are you going to attend yourself?" asked the executive. "I don't need to," replied the janitor. "I've already started an IRA—shopped around and got 15½ percent interest locked in for two years. Now I'm considering how to roll the account over when the two years are up."

Individual Retirement Accounts give any working American a chance to accumulate funds, on a tax-delayed basis, for retirement. Since eligibility was expanded in January to all workers—until then only those without a company pension plan could set up an IRA—millions of people of widely varying ages and incomes have invested more than \$10 billion in IRAs at banks, savings and loan associations, credit unions, mutual funds, insurance companies and brokerage firms.

That running start in the first five months of 1982 points to well over \$20 billion in the accounts by next April's income tax deadline. Experts say the pace of IRA investment could slacken in coming months, but they expect a surge as the tax deadline approaches.

The fact that so many Americans are starting the long-term savings accounts bodes well for the nation's economy. Financial institutions will direct the funds toward capital formation, and plant modernization and job creation are likely results. Meanwhile, the individual taxpayer gets a yearly tax de-



Cartloads of IRA applications have come in to a credit union clearinghouse in Madison, Wis.

duction and, eventually, a welcome supplement to Social Security.

Since thousands of financial institutions are accepting new IRA deposits, compiling definitive statistics is a difficult task. However, Richard L. Leshner, president of the Chamber of Commerce of the United States, has seen enough information to be convinced that IRAs will be "smashingly successful."

A survey of a cross section of the U.S. population, conducted for the American Bankers Association, found that 87 percent of respondents were aware of the expanded IRA eligibility rules. Ten percent had opened an account during the first six weeks of the year. An ABA statement notes, "This enthusiastic public response in such a

short time span indicates that IRAs will indeed be as important a savings vehicle as had been anticipated by financial institutions."

A poll taken at the U.S. Chamber of Commerce annual meeting in April reinforces the ABA findings. Twenty-four percent of business people who responded said they had started an IRA since January. Another 31 percent already had accounts before January.

Most financial-institution IRA experts contacted by NATION'S BUSINESS say their IRA programs are doing well and will do even better.

"IRAs are living up to our hopes," says James Covington, manager of product development at Barnett Banks of Florida, in Jacksonville. By the middle of April, the bank hold-

ing company had reached one half of its goal of new accounts for the entire year, he says. Estimates based on Federal Reserve Board figures show that by the end of March banks in general had taken in a total of about \$3.1 billion in new IRA accounts.

MUTUAL FUNDS are "off to a very good start," says Reginald F.D. Green, a vice president at the Investment Company Institute, an association of mutual funds. He says that new IRA accounts placed in mutual funds brought in \$530 million by the end of February and that the accounts totaled 314,000—"as many as we used to get in a year."

About 68 percent of these accounts

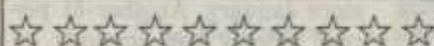
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are in money-market funds. No breakdown is available on what percentages of the remainder are in common stock funds, bond funds or combination stock-bond funds.

Credit unions had garnered 392,000 IRA accounts by the end of January, says Fred Ringenburt, an expert on IRAs who is affiliated with the Credit Union National Association. Most large credit unions offer IRAs, and the association's economists estimate there will be 778,000 credit-union accounts at year-end with a balance of about \$1.25 billion.

No overall numbers from securities firms or insurance companies are available. Merrill Lynch, the nation's largest brokerage house, has signed up about 160,000 new IRAs. Prudential Insurance Company, the largest U.S. insurance firm, lists more than 200,000.

ing funds from lower-yielding accounts. New savings—money that wouldn't otherwise have been saved—is accumulating in relatively small amounts, he explains. He adds, "People tend to overestimate how responsive the average American is to tax benefits."

AN ANALYST at the Commerce Department's Bureau of Economic Analysis guesses that at least half of the money that has flowed into IRAs since January was transferred from existing accounts, most often from S&Ls.

Because of the transfers and the recession—recessions usually hold down personal savings—the billions piling up in IRAs have not shown up in the national rate of savings of after-tax income. The figure was 5.3 percent for 1981. For the first quarter of 1982, says the analyst in an admittedly rough esti-

Estimated Amounts in New IRAs

	Cumulative Totals in Millions of Dollars		
	1/31/82	2/28/82	3/31/82
Commercial banks*	\$1,542	\$2,588	\$3,888
Mutual savings banks*	165	303	493
Savings and loans*	1,300	2,000	2,800
Credit unions	302	491	720
Mutual funds	306	530	754
Total†	\$3,615	\$5,912	\$8,655

*These estimates include money in Keogh retirement plans for the self-employed, which account for about 20 percent of the totals.

†No overall figures are available for insurance companies or securities firms.

Sources: Federal Reserve Bank, Federal Home Loan Bank Board, Credit Union National Association, Investment Company Institute and U.S. Chamber Forecast Center.

Dennis Jacobs, director of research at the U.S. League of Savings Associations, is cautious in evaluating the impact of IRAs. Although S&Ls are getting about \$750 million a month in new IRA accounts, the all-savers certificate—a one-year tax-free instrument—brought in \$20 billion in its first three months, he points out.

However, he says that the all-savers investment essentially has proved to be a one-shot deal in which money has been transferred from low-yield taxable accounts. (Purchases of the certificates, which are available only for a limited period, slackened after the early surge.) IRAs, he says, represent a long-term commitment that many people are slow to make.

Jacobs says that so far, the primary effect of the broadening of the IRA program has also been a shift of exist-

mate, the rate held steady at 5.3 percent. That translates into annual savings of \$112.1 billion.

The Credit Union National Association's Ringenburt says payroll deduction plans are the No. 1 way to bring new money into IRAs. The accounts can grow quickly with deposits of as little as \$25 a month. About 85 percent of credit union members have access to such plans, Ringenburt adds.

Many employers have been holding back on launching IRA payroll deduction programs, waiting for more information or a groundswell of demand from employees. Leonard A. Deininger, manager of group pensions at Prudential, believes payroll deduction IRAs will be a major source of investment money, with "the amount growing over a three- to five-year period."

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\$1,500, \$1,750 and \$3,000.

The total annual investment is sub-
tracted from income when taxes for the
year are computed. All income earned
through the magic of compounding in-
terest (IRA rates have gone as high as
18 percent) or compounding dividends is
tax-free. There is a 10 percent tax pen-
alty for funds withdrawn before age

While IRAs multiply, another tax-de-
ferred savings plan—with an even
greater opportunity for retirement in-
come—is on the horizon. It is known by
various names; the most common are
salary reduction, deferred compensa-
tion and cash deferral.

Now available only through a limited
number of employers, the plan allows a
worker to defer up to 15 percent of his
salary for investment. An employee de-
fering 15 percent of a \$20,000 salary
would show \$17,000 on his W-2 form at
the end of the year.

This tax shelter was created by the
Revenue Act of 1978, but the Internal

\$1 Million for \$3,500

A 23-year-old Cleveland-area wom-
an knows she is going to be a mil-
lionaire in 42 years. That has been
guaranteed by Society National
Bank.

Other financial institutions have
advertised the possibility that young
depositors can become millionaires
by putting \$2,000 a year into float-
ing-rate accounts. But the \$2.4 bil-
lion-deposit Society National says its
Individual Retirement Certificate
has automatically created the first
bona fide IRA millionaire in the U.S.
for an investment of only \$3,500—a
\$1,500 IRA deposit for 1981 and
\$2,000 for 1982.

The difference is that Society Na-
tional has guaranteed the depositor
a high rate of return—14 percent in-
terest compounded semi-annually.
At that rate she will have
\$1,028,739.39 in 2024, when she is 65.
Under the Society National pro-

gram, the customer chooses the ma-
turity. The bank, to cover itself for a
decades-long payout, matches pro-
ceeds from certificates with corpo-
rate bonds and mortgages of similar
maturity. In the young woman's
case, the first 30 of the 42 years are
already matched, leaving the last 12
to be locked in down the road.

The woman is far from alone in
taking advantage of the Society Na-
tional program, but hers is the cer-
tificate with the longest maturity to
date. Also, reflecting modest de-
clines in interest rates, certificates
issued recently have a lower return
than hers—12.75 percent was the
figure early last month.

"We offer all the ordinary IRA
products," says Mary Caye Dono-
van, assistant vice president for
marketing. "But the certificate is a
fantastic opportunity for a young
person."

59½. Withdrawals after that are fully
taxable as ordinary income at the tax-
payer's regular tax rate. Since with-
drawals generally will be made after
retirement, when income is lower, the
rate can be expected to be down.

Older workers seem to be the best
prospects for seekers of IRA custom-
ers. Covington of Barnett Banks says a
majority of IRAs started at the holding
company's banks belong to people over
40 "who have retirement at least in
sight." Although young workers can
earn enormous long-term returns if
they start accounts early, it is, as Green
of the Investment Company Institute
puts it, "a hard decision to put away
money for so long a period."

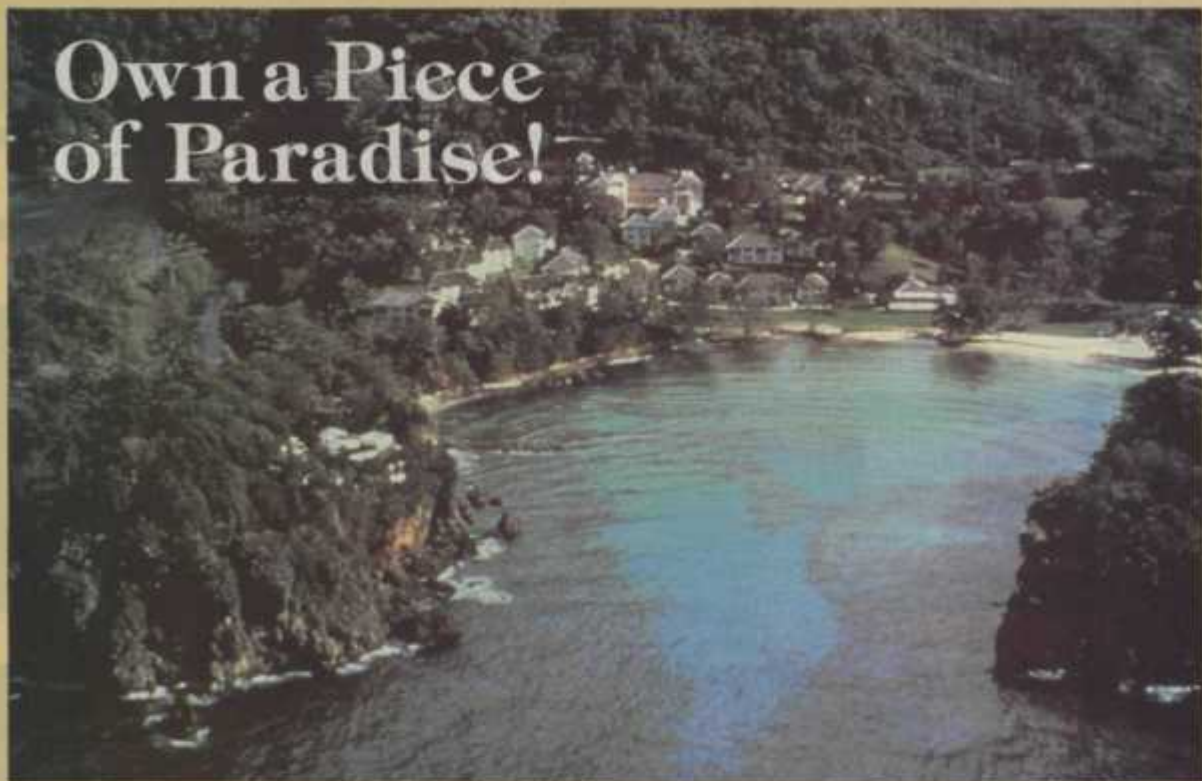
Revenue Service did not issue proposed
regulations until last November. Cau-
tious firms want to see the final rules,
not expected until late this year.

Lloyd S. Kaye, a vice president at
William M. Mercer, Inc., pension plan
analysts, looks at the long-term effects
of IRAs and salary reduction, and he
likes what he sees.

"The more IRAs and salary reduction
plans are used, the more likely Con-
gress will be to expand them," he says.
"We won't have to be looking constant-
ly to government or employers to take
care of us."

Another analyst concludes, "IRAs
will help the whole country. They put
more capital where it's needed."

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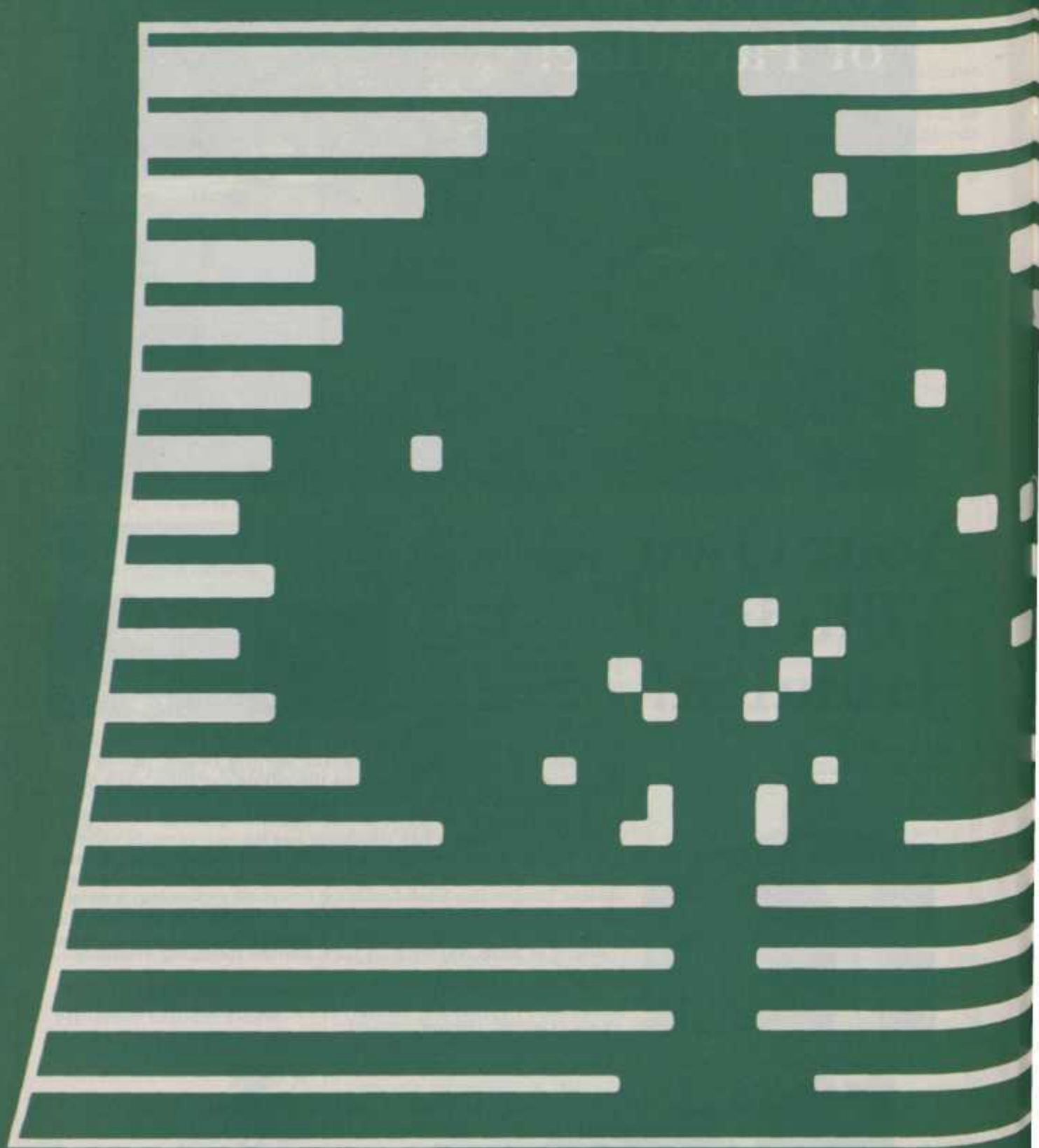
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The Flier Who Kept a Company From Crashing

Paul Thayer set LTV on a sound course after pulling it out of a nose dive. Now he faces a different challenge.

By Grover Heiman

PAUL THAYER, the trim former test pilot and World War II ace who is chairman and chief executive officer of the LTV Corporation, keeps a lion in his suite of offices in the LTV Tower in Dallas.

According to close associates who have seen Thayer in action, he is among the best one-on-one business executives in America. But Thayer confides with a grin that the stuffed beast is more than his match. "Cecil can stare me down anytime he wants to," he says.

A big-game hunter whose French-chateau-style home in North Dallas contains many trophies, Thayer bagged the lion in 1974 on an Ethiopian safari. When the animal, mounted in a stalking pose, arrived from the taxidermist, the corporate staff solemnly concluded that the eyes were a bit askew and there was a great resemblance to a cross-eyed lion named Clarence who had starred in a 1965 movie. They collectively decided that Paul Thayer's lion deserved an equally regal name and dubbed him Cecil.

Cecil will be a bit lonely this year because Thayer will be taking on increased responsibilities as chairman of the U.S. Chamber of Commerce. He will be traveling extensively to Washington and around the nation in vigorous support of the free enterprise system.

Bagging Cecil in 1974 was a milestone for Thayer, but there was an even more important one that year—LTV gained 100 percent ownership of all of its subsidiaries. It had taken four traumatic years for Paul Thayer to transform a rather toothless holding company into an operating company that could control its own destiny. Last year the diversified firm, which em-



The LTV Corporation's 62-year-old CEO Paul Thayer amazes air-show crowds with acrobatic performances in this World War II Vought Corsair Navy fighter.

loys 60,000, logged \$7.5 billion in sales.

But when Thayer took over the helm on July 9, 1970, the conglomerate that master corporate packager James J. Ling had put together was coming apart, and the threat of bankruptcy was approaching like a blue norther streaking down from the Texas Panhandle. Debt stood at an oppressive \$1.7 billion, the subsidiaries were leaking red ink, and major investors were very nervous.

"LTV didn't own 100 percent of anything in those days," Thayer recalls. "Sixty-seven percent of this, 81 percent of that. The difficulty there, of course, is that you don't have absolute freedom to operate a partially owned company, even though you own a majority of the stock."

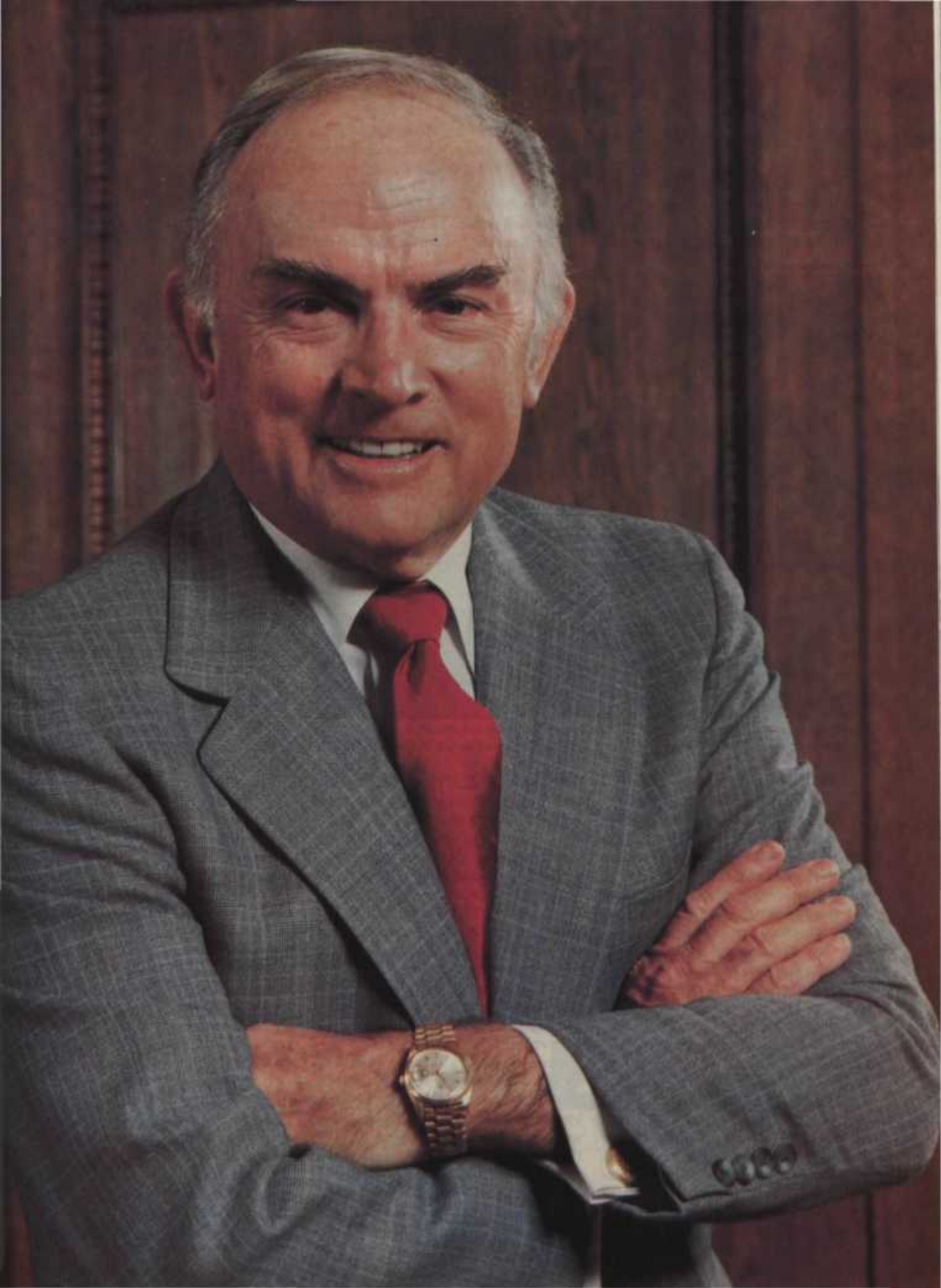
In July, 1970, the worried board of directors decided that a change was in order and elected Thayer chairman,

CEO and president—a tripartite job he had not sought. At the time, Thayer, who was one of the directors, was president of an LTV subsidiary, LTV Aerospace Corporation. He was perfectly content as head of this respected firm that was building a product he loved—jet fighters—particularly since he got to fly them as much as he wanted.

"I was like a kid with his own candy store," he says nostalgically.

THEN ONE DAY Roscoe Haynie, who was chairman of the LTV executive committee, confided to Thayer that he had been sounded out about Thayer's qualifications for the job of LTV chief.

The other directors asked what Haynie knew about Thayer as a businessman, pointing out that although Thayer was very successful with his present company, he dealt with only



one primary product, airplanes, and only one customer, the government.

"I don't know for sure what kind of businessman he is," Haynie told them.

"But I do know that guy is lucky. And that's probably what this company needs right now more than anything else—a little luck."

Thayer, on being approached, said he was perfectly happy as head of LTV Aerospace, but he decided to reconsider when the delegation observed that if he

the wolves. With creditors at the door, the message from investment houses and banks was unmistakably clear—no more credit until LTV's house was in order.

Thayer began his attack on the problem by trimming corporate overhead and selling questionable assets, such as a 6,100-acre Texas ranch used for executive recreation, and some downtown Dallas real estate. Then, in an intricate set of financial maneuverings, he dis-

through Lykes Brothers Steamship Company and into the growing energy products and services industry through Continental Emsco.

Thayer served as the point man in clearing the proposed merger of Lykes and LTV through obstructions at the Securities and Exchange Commission and the Justice Department. When the merger was approved in 1979, he continued as chairman and chief executive officer of the combined companies.

Although he was born in Henryetta, Okla., in 1919, Thayer calls Kansas his home state. His father was a driller, one of those nomads of the oil patch who followed the rigs from site to site in Oklahoma and Kansas. One summer the family took up residence in a tent but by the time Paul was in the fourth grade, his father was a drilling contractor and settled his family in Wichita.

In those days the Kansas city billed itself as the Aviation Capital of the World, and from a grass field outside town 10-year-old Paul Thayer took his first flight, which he found thrilling but not inspiring enough to make him want to go into aviation. He wanted to be in the same business as his father. By the time he was in high school he was working during the summers in the oil fields, first as a tool dresser and then as a roughneck to earn money for college.



President Reagan, appreciative of U.S. Chamber of Commerce support, discusses problems with Thayer and Chamber Vice Chairman Edwin P. Dodd (right).

refused, they would need to hire him a boss, and Thayer might not like him.

Paul Thayer, knowing whom they had in mind, accepted—but with provisos. He was to be chairman, president and chief executive officer. He was to have a free hand to select his own team and run the company with a minimum of interference from the board of directors. His management style, then as now, is to delegate to the lowest practical levels and give authority along with responsibility.

The directors, by now convinced that they had the right man, accepted. The new CEO didn't waste any time getting into action. One of his first decisions was to keep his suite of offices on the 14th floor of the LTV Tower, which is really the 13th floor. He had chosen that floor when the building was first occupied because in World War II combat in the Pacific, his Hellcat fighter always bore that number and proved it lucky.

Immediately he moved to stave off

posed of four of LTV's seven subsidiaries—Braniff, Okonite, Ling Altec and LTV Electrosystems. From this divestiture Thayer was able to gain 100 percent interest in LTV Aerospace. Jones & Laughlin (steel) and Wilson (meat) basically amounted to all of the remaining assets. By 1974 Thayer had LTV in the black and could focus more attention on the long-range future.

The corporation was still dependent on the fortunes of three very cyclical industries—aerospace, steel and meat packing. Determined to change that, Thayer went hunting in 1978.

Jones & Laughlin, acquired in 1968 by Jim Ling, was struggling. Youngstown Sheet & Tube Company, acquired by Lykes Corporation the same year, was equally stunted. Paired, though, they nicely complemented weaknesses with strengths. If they were consolidated, they would rank third in the nation's roster of steelmakers. And a merger with Lykes would further diversify LTV into ocean shipping

HE FINISHED his freshman year at Wichita State convinced that he wanted to be a petroleum engineer. He dropped out of school for a year, headed for Illinois and became a fulltime roughneck. Working seven days a week, he drew \$250 a month, which in those days put him in the ranks of the affluent.

With his savings, he enrolled at the University of Kansas for his sophomore year and soon heard about the government-sponsored Civilian Pilot Training Program. "For the price of a physical you could learn to fly," he says.

After he soloed, thoughts of a career as an engineer vanished. By the summer of 1941 Paul Thayer was in Navy flying school. He got his wings in the spring of 1942 and an award as the top cadet in his class.

That fall, as a full-fledged fighter pilot on the carrier *Sangamon*, he participated in the invasion of North Africa and scored his first kill, a Vichy French Dewoitine fighter near Casablanca. Two tours followed in the Pacific, where he notched five Japanese Zeros and survived four crashes, always in Wildcats or Hellcats numbered 13.

Not seeing a future in the Navy for a

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reserve officer, Lt. Cmdr. Thayer left the service in October, 1945, with three Distinguished Flying Crosses, nine Air Medals, two Presidential Unit Citations and assorted theater ribbons.

"I liked the Navy," he says. "I really loved combat. But by then I had a yen to try my hand at commercial aviation."

TWA accepted him for copilot training in Kansas City and upon his graduation put him on the Kansas City-Albuquerque run. In 1946 he got the San Francisco-Albuquerque run and moved to San Francisco. His salary was \$230 per month.

"I hadn't made much progress, money-wise," he says. "Not when you think that before the war I was making \$250 a month in the oil patch. I was only working two days out of five, and I didn't want to just sit around the apartment, so I started selling insurance for John Hancock."

And he developed another interest—a pretty blonde stewardess on the San Francisco-Los Angeles run who lived in San Francisco.

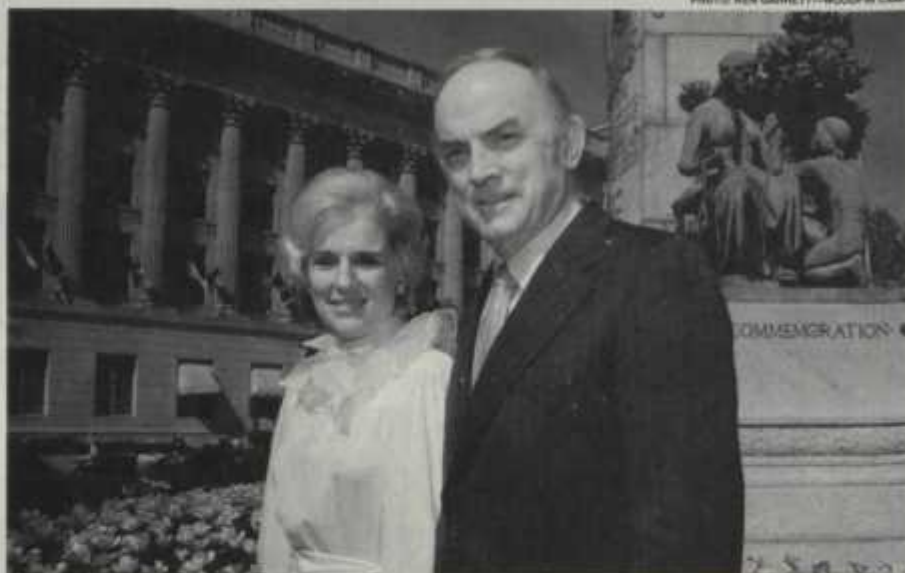
THAYER proved successful in his pursuit of these two new interests. He made more from selling insurance than his copilot's salary from TWA, and on Valentine's Day, 1947, he married Margery Schwartz, the stewardess, who has played an understanding and pivotal role in his life and career.

"It was Margery, reading the classified ads in the paper, who saw that Chance Vought Aircraft was looking for a production test pilot at its Grand Prairie, Tex., plant," Thayer says.

"So I picked up the phone, called the chief test pilot and told him I thought I had all the qualifications he was looking for. He just laughed and said, 'Yeah, you and about 1,500 other guys. Look, write me a letter and we'll put it in the pot.'"

Thayer spent several days writing and rewriting his letter. Ten days after he dropped it in the mail, he received a telegram directing him to a company psychologist in Los Angeles. After spending a long day taking a battery of tests, Thayer stretched and said to the psychologist: "You've probably found out all you will ever need to know about me through these tests, so why don't we just go down to the bar and over martinis you can get to know the seamiest side of Thayer?"

Whether it was the formal testing or the informal session over martinis, Thayer isn't sure, but soon he and 30 other candidates were at Chance



Mr. and Mrs. Thayer take a springtime stroll outside U.S. Chamber headquarters. They met when he was a TWA copilot and she was stewardess Margery Schwartz.

Vought's headquarters in Bridgeport, Conn., for a final screening. At the end of the day they were called in individually and given the word that the company would be getting back to them. Thayer balked.

"Well, I don't intend to go back to California," he said. "I came here to get a yes or no answer, so when you decide what you are going to do about me, I'll be at the Bridgeport Hotel."

Taken aback, the Chance Vought officials excused themselves for about five minutes. When they returned, they were smiling. "You got the job, Thayer," he was told.

Initially, he was content testing

fighters that came off the production line, but no test pilot is satisfied unless he is on the real cutting edge—testing the untried designs. It appeared, however, that it would be at least five years before he could hope to move into those glamorous ranks. However, over a period of a year a streak of bad luck plagued the company, and it lost a number of experimental test pilots. Thayer moved into those ranks. He became one of the first pilots to crack the sound barrier in a Navy fighter, and his luck held out—he walked away from two crashes and a bailout, giving the Navy's ejection seat its first use.

Opportunity knocked in 1949: Nor-

Paul Thayer on

As chairman of the U.S. Chamber of Commerce, what is your top priority for the coming year?

Because 1982 is an election year, I believe our top priority should be to work for candidates, Republican and Democrat, who share our beliefs about the kind of economic policies that are needed to revitalize our economy. We should strongly support those incumbents who went to bat for us by voting for President Reagan's sweeping tax and budget cuts, just as we must work to defeat those who would like to take our tax cuts away and give us even bigger federal budgets.

Of course, we must move ahead on other fronts as well. Sustained economic recovery depends on our ability to develop a national plan to increase our exports. Also, the business community

should play a leading role in the effort to put the President's federalism initiative on a fast track in Congress. And we must increase our voluntary community efforts to help state and local citizens who need it over the hump in this time of transition away from federal paternalism to greater self-reliance.

Do you believe that the recession will adversely affect the prospects of those congressional candidates who have voiced support for President Reagan's economic policies?

I am confident the economic conservatives of both parties will prevail in November because no one—I repeat, no one—has offered any viable alternative to the President's strategy except to cancel a tax cut here or restore a budget cut there. The American people re-

throp Corporation offered him the job of chief of experimental flight test. But a year later he returned to Chance Vought as chief of flight testing and manager of sales and services.

His climb in management ranks was swift. By 1955 he was vice president for sales and services and elected to the Chance Vought board of directors. After a year in Washington, where he ran the company's office and foreign sales, Thayer was moved to Dallas and became vice president and general manager of the firm's aeronautics division. Six years later the company was acquired by a diversified electronics company named Ling-Temco. The firm's new name became Ling-Temco-Vought, Inc., and Paul Thayer became president of Chance Vought and a director of LTV.

The newly acquired subsidiary, later named LTV Aerospace, prospered under Thayer. Sales jumped from \$195 million annually in 1965 to \$800 million in 1969. That performance did not escape the board of directors when it came to choosing a successor to Ling.

Looking back on his career and the many decisions, would he have done anything different? Thayer, who relaxes easily, leans back and thinks for a moment. "I've never had a job I didn't like. I've never regretted taking the chairmanship of LTV. I wouldn't change a thing."

Thayer keeps in top shape. His day starts at 7 with a workout in his home gym, including exercise on a stationary bicycle and countless pushups. Then he

drives himself to work in time to arrive around 9:30. If it's a nice day, he dons a helmet and fires up his Honda Gold Wing 1100 motorcycle to make the trip. Each year he tries to make a 1,000- to 1,500-mile trip on the Honda through the Rockies. And sometimes he takes jaunts on a trail bike in Colorado where the big Honda can't go.

Thayer doesn't leave his office until his desk is clear, usually between 6 and 7. He likes watching sports on TV, but when he can, he catches the daytime soap opera "One Life To Live," on which their only child, daughter Brynn, plays the part of Jennie Vernon, an ex-nun on her third marriage.

A DEDICATED GOLFER, as is his wife, Paul Thayer has a handicap that floats between 8 and 10. He sometimes plays with friend Arnold Palmer and beats him, but he says, "That's because he gives me too many strokes." The Thayers do not own a second home "because we don't want to feel tied down."

However, they do have an interest in a boat berthed in Southern California. Thayer uses the boat for another adventurous sport—scuba diving. Favorite quarry is the albacore; off the Mexican coast a 100-pounder once dragged him down to a depth of 165 feet, a little farther than he really wanted to go.

He skis, but not with as much abandon as he did before he broke his leg in eight places. And he still flies. He takes

the controls of his corporate jets, but his real love is one of the gull-winged Vought Corsair fighters of World War II fame. His firm restored the Corsair, and it now is part of the armada amassed by the Confederate Air Force—a group of aviation buffs—in Harlingen, Tex. Thayer made the delivery and whenever he can find time joins the group to put on air shows in Number 13. He performs a series of acrobatics that call for 4G's, a grueling physical strain that would test the stamina and physical condition of a pilot in his 20s. Thayer ends his performance by rolling the plane over upside down, extending the wheels, then rolling the plane over and immediately landing.

The other day he had an engine failure and had to make an emergency landing with the wheels up in a pasture about 30 miles east of Dallas. There was quite a bit of damage to the plane, but Thayer was not hurt.

While his company is repairing Number 13 for further flights, this coming year Thayer will be concentrating on repairs of a different kind as he carries out his heavy duties as chairman of the U.S. Chamber of Commerce. He intends to see that the business community stays active at all levels—that the voice of business is clearly heard in Washington and around the nation and the world. □



To order reprints of this article, see page 52.

Politics, Paternalism and Prosperity

alize that the big taxers and spenders have had their chance, and they produced the worst economic mess since the Great Depression. Americans are willing to give our new policies a fair chance to work.

What steps would you urge Congress to take to reduce the budget deficits that have been projected over the next several years?

First, Congress should approve all of the spending reductions the President has proposed in his fiscal 1983 budget message. Then, Congress should go beyond and find additional savings. One action that should be taken immediately is a one-year freeze on all cost-of-living adjustments in federal benefits programs. This would in a single stroke reduce the fiscal 1983 deficit by at least

\$20 billion. And it is a fair action because over the last four years those benefit increases have outstripped the wages of working Americans by about 2 to 1.

You didn't mention tax increases. Don't you believe that they should be part of a package to reduce the deficit?

No. Let me explain why. First, there is no evidence that additional revenues generated by a tax increase would be used to cut the deficit. We're fooling ourselves when we believe Congress would do anything but spend the additional money. Second, it is not even clear that raising taxes in this time of recession would in fact generate new revenues. More likely it would delay economic recovery and cause a bigger

deficit. Finally, we hear plenty of talk about fairness and compassion these days. Well, I would like to see our legislators who claim to be itching to pass new tax hikes show some compassion for a change for those who pay the taxes. The American people need and deserve every single percent of the 25 percent cut voted last year.

What is your outlook for our country and our economy in the 1980s?

I am by nature optimistic. If Congress summons the political courage to stick to the economic course charted by President Reagan—and that means reducing the scope of the Big Brother syndrome in Washington—then I am absolutely convinced that Americans from all walks of life will enjoy a much more prosperous future.

**Campaign
'82**



Will the Conservative Coalition Hold?

The outcome of Washington fiscal battles hinges in large part on how much Boll Weevils still cotton to Ronald Reagan.

By Barry Crickmer

LAST YEAR, when Ronald Reagan presented his budget and, later, his momentous tax cut program to Congress, the conventional wisdom was that he was in for trouble. True, his party had a majority in the Senate. But the Democrats controlled the House.

What happened is history. In May the House passed the President's budget, with 63 Democrats voting for it and not a single Republican defecting. In July the House passed what became known as the Economic Recovery Tax Act of 1981, with 48 Democrats voting against their party leaders' position and only one Republican voting against the President.

Now a new fiscal battle is under way on Capitol Hill. Once again, presidential spending and tax programs face a hostile Democratic leadership in the House. Will history repeat itself?

In large measure, the answer will depend on whether the conservative coalition that gave the President his victories last year holds together. Two key House conservatives, Thomas F. Hartnett (R-S.C.) and Charles W. Stenholm (D-Tex.), think it will.

The 54 new House Republicans who were swept into office with Ronald Reagan brought the GOP ranks to 192. The elected president of this largely conservative GOP freshman class is Hartnett, whose district includes Charleston and its vicinity. Hartnett, 40, has helped change the freshman group from a mere formality to a working organization courted by lobbyists and the administration.

Stenholm, 43, is coordinator of the 47-member Conservative Democratic Forum—better known as the Boll Weevils—whose votes gave the Republicans de facto control of the House during last year's tax and budget bat-



Rep. Phil Gramm (D-Tex.), an economist, is again playing a big role in the annual budget battle.

"My world is kind of olive drab," says Rep. Thomas Hartnett, whose district has six military bases.



ties. A farmer who represents a largely rural district surrounding Abilene, Stenholm has an open, plainspoken manner. He was elected to the 96th Congress in 1978 and is running unopposed for re-election this year.

Neither man foresees a conservative rout at the polls next fall, despite surveys indicating substantial Republican off-year election losses.

Hartnett expects signs of economic improvement by July or August. That would trigger a "slight swing" back to Reagan and the Republicans, he says. He doesn't see the GOP losing more than one or two of the freshmen, and he thinks his party might even gain five or six House seats.

Will the Reagan coattails look as inviting this year as in 1980? "Republican candidates may not run *with* him as closely as they did in 1980," Hartnett says, "but you're not going to see any of them running *away* from him."

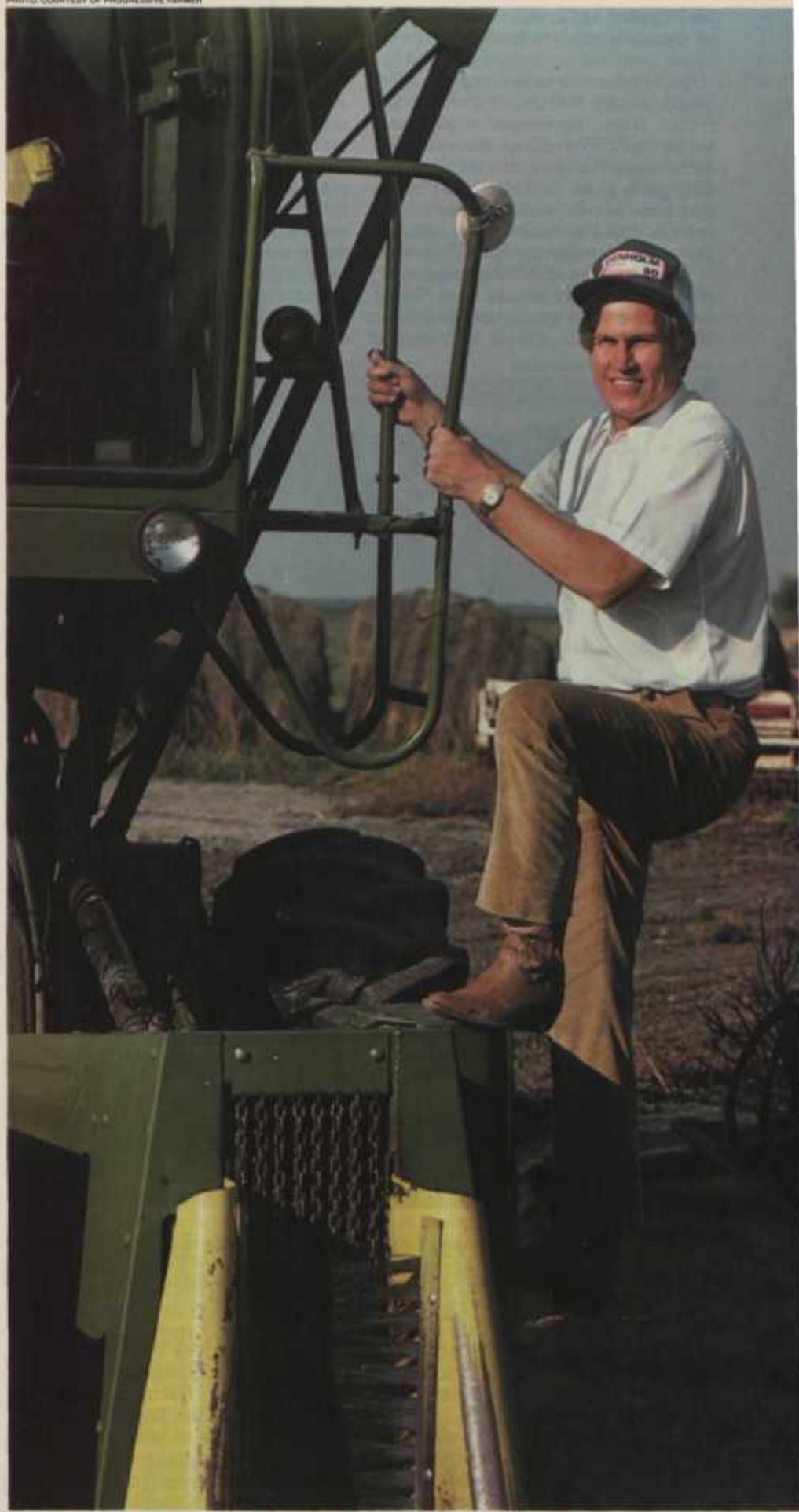
Ask Stenholm about the Republicans' prospects and he starts to answer, then stops and smiles. "I'm going to be partisan on this one," he says. "I'm encouraged. I believe we're going to elect more conservative Democrats." Are any of the Boll Weevils in danger? "I think several have tough races," he replies. "I don't think any are going to be defeated." The Conservative Democratic Forum has its own political action committee to help assure that.

DESPITE ELECTIONS that will pit conservative Democrats against Republicans, both Hartnett and Stenholm say a continuation of the conservative coalition in the House is natural. "It's not so much a political coalition as a philosophical one," Hartnett explains. "The members are simply voting the way their constituents want."

Adds Stenholm, "If we stop voting that way, we won't be around. The people we represent expect members of Congress to deliver on their campaign promises." For the same reason, Stenholm has no regrets about having cooperated with the House Republicans to pass administration legislation. He "wouldn't change anything" if he had it to do over again, he says.

The Boll Weevils see themselves as keepers of the true faith. They think the rest of the Democratic Party marched left while they remained on the original course, and they intend to maintain it until the others rejoin them.

(Another prominent Boll Weevil, Texan Phil Gramm, survived a Democratic primary challenge last month. His challenger, John "Jack" Olin Teague, whose late father, Olin E. Teague, represented Gramm's district in Congress



Rep. Charles W. Stenholm cultivates more than votes. He and a cousin farm 2,500 acres in West Texas, producing cotton, wheat, feed grains, cattle and hogs.

for 32 years, had tried to make an issue of Gramm's support for Reagan's economic policies.)

Could the conservative coalition eventually wrest formal control of the House from the present Democratic leadership? "We missed our chance in 1981," says Hartnett. He says the big GOP gains in the 1980 elections were so startling that Republicans didn't have enough time before the House was organized to consider the opportunities.

Stenholm says that "there was talk" of a coalition move to take over, "but it never got off the ground on either side of the aisle." He doubts that such a

possible. The Moths can produce 20 to 35 votes, depending on the issue. There are 242 House Democrats. If the 47 Boll Weevils vote Republican, the Democrats would be 23 votes short of the 218 needed for a majority.

On economic issues, the Moths have aligned themselves more closely with the Democratic leadership than with the conservatives' positions. Also, they want more federal aid for public works and economic development projects in their regions, says Pursell.

But party switching has run its course, Stenholm believes. One Democrat, Eugene V. Atkinson of Pennsylva-

that people think the Republicans have complete control over economic events because they control the White House, even though the Democrats run one house of Congress.

Stenholm says it was "overselling" of the administration program that aroused false hopes. "People were led to believe that just the expectation of the tax reduction was going to work wonders," he says. He says disillusionment since then has complicated the work of those who believe the program is sound but will take time to succeed.

The biggest GOP asset? Hartnett replies with a question: "What is the alternative? Go back to the old ways that got us where we are now?" Also, he thinks the Democrats are handicapped by a lack of leadership and the absence of any "shining stars."

Further spending cuts and some tax increases are in the cards if the coalition maintains its influence. "We have to cut, cut, cut down to the bare bones," says Hartnett. "But we must have additional revenue if we are going to bring the deficit down."

Stenholm concurs. "Spending must be cut as much as is humanly possible," he says. What is humanly possible? "What it takes to get 218 votes." Even so, he, too, thinks tax increases will be necessary. "I'm catching some flak from folks who say, 'Don't touch the tax cuts,'" he says. "But I'm hearing from a heck of a lot more who say, 'Pay for the government. We know you have to pay for what you get.'"

NEITHER CONGRESSMAN regards the entitlement programs—including Social Security—as sacred. Hartnett thinks whatever decision is made to reduce the programs' rate of increase will be bipartisan and therefore not a political issue. Stenholm says cuts can be made if they are part of a package perceived as fair to all.

"I polled 490 senior citizens in my district," he says. "I asked them, 'If, as part of a comprehensive budget package, I vote to reduce your cost-of-living adjustment by 40 percent, will you support me or oppose me?' Only six said they would oppose me. But if the total package is not seen as fair, there's no doubt they'll hang me at sunrise."

The price of this perception of fairness, the congressmen say, is some tax increases and maybe a little trimming of the defense budget. Neither is enthusiastic about either course.

For Hartnett, particularly, cutting the defense budget is a painful prospect. He has six major military installations in his district, including the Marine boot camp at Parris Island.

Further, the briefings he has had as a member of the Armed Services Committee—his only committee assignment—have left him deeply disturbed

PHOTO: KARL SCHMACKER—THE WHITE HOUSE



President Reagan greets Stenholm, who as leader of the Boll Weevils helped launch the administration's economic program—and says he doesn't regret it.

move ever will get off the ground because of fears that the traditional two-party system might be endangered.

In fact, the conservatives may no longer have as much power as they once did even on legislative issues, since they can no longer count on support from all 192 House Republicans. "Putting that coalition together this year is almost impossible," says Carl D. Pursell (R-Mich.). Pursell is one of the reasons. He is cochairman of the Gypsy Moths, a group of Republicans from the Midwest and Northeast.

The Gypsy Moths feel they were taken for granted during the wheeling and dealing of last summer, and some of them see an opportunity to become the swing-vote bloc now, as were the Boll Weevils earlier. That is mathematically

nia, has changed his affiliation to Republican, and another, Bob Stump of Arizona, has announced he will seek reelection on the Republican ticket.

Though Stenholm notes that President Reagan has identified 20 members of the Boll Weevil group whom he personally will not campaign against, the congressman says he doesn't see any signs that the Republican Party will avoid attacking Boll Weevils. Nor does he think it has an obligation to do so.

Stenholm and Hartnett agree that the economy is the biggest cross the Republicans have to bear into the elections. "The American people fully anticipated a major change in the economy by April, 1981—when Ronald Reagan had been in office three months—and it didn't happen," says Hartnett. He adds

about the Soviet drive for military superiority. He points out that 48 percent of President Kennedy's 1962 budget went for defense and only 25 percent for human resources, but the 1982 Reagan budget provides 26 percent for defense and 53 percent for human resources. Yet, he notes, Democrats are accusing Reagan of neglecting human needs.

Stenholm, too, thinks the defense buildup must continue, but he believes some cuts can be made without harm.

Both Stenholm and Hartnett are willing to consider a surtax on the federal individual income tax as a means of reducing the deficit. But neither challenges the second and third installments of the Reagan income tax cuts—10 percent next month and in July, 1983. Also safe are the accelerated depreciation features of the Economic Recovery Tax Act of 1981. But other business tax increases are in the wind.

The Boll Weevils entered the budget wars with a proposal drafted by Reps. Gramm, Jerry Huckaby (D-La.), Andy Ireland (D-Fla.) and Charles Roemer (D-La.). It does not contain the minimum corporate tax advocated by the administration. However, it does call for repealing the controversial "leasing" rules that allow corporations to buy and sell tax deductions; doubling excise taxes on cigarettes, alcoholic beverages and telephone service; reinstating a series of excise taxes, removed years ago, on goods deemed luxuries; putting an excise tax on imported petroleum; limiting business deductions for meals and entertainment to 50 percent of the expenditure; and capping deductions for personal interest expenses (mortgage interest would not be limited, and \$1,500 of interest on auto loans could still be deducted).

Stenholm says the additional revenue sought by his group will probably be close to the three-year, \$95 billion figure worked out between the White House and the Senate Budget Committee. He calls the \$151 billion increase proposed by the House Budget Committee "totally unacceptable."

HARTNETT has introduced legislation providing for a 5 percent tax on manufactured goods—to be assessed on sales to the ultimate consumer—with the proceeds dedicated solely to paying off the national debt. He estimates the tax would produce \$115 billion in revenue annually, enough to retire the debt in 10 years. (The tax would end when the debt does.) He concedes, however, that the plan will not work unless federal budgets are required to be balanced.

Stenholm and Hartnett are among those who think a constitutional amendment is needed to compel Congress to balance the federal budget. Stenholm is a cosponsor of legislation proposing

such an amendment, and Hartnett has introduced his own bill. South Carolina and Texas are two of the 31 states that have called for a constitutional convention to draft an amendment. Article V of the Constitution provides that a convention may be called by two thirds of the states, or 34.

"If we could ever pass a constitutional amendment—as ineffective as it might be—it would be a signal to the American people that Congress is at least semiserious about a balanced budget every year," says Hartnett. He thinks interest rates will come down when the financial markets cease to

worry about the size of the budget deficit, although he doesn't expect rates to fall below 10 percent soon.

Will Congress pass amendment legislation soon? "Not this year. Maybe next," Hartnett predicts.

What's next on the Republican agenda once the economy is straightened out? "Deregulation," says Hartnett. "Reducing the size of the bureaucracy and its control over business and over people's lives. The measure of a good government should be not how much it does for its citizens, but rather, how much the people are able to do for themselves." □

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NB-2

Joining the War On Drug Abuse

Programs to help employees fight drug, alcohol and emotional problems are investments that yield high returns.

By Mary Tuthill

WHEN NANCY REAGAN took a campaign she is waging against drug abuse on the road, a young man at a rehabilitation center told her: "I used to sit at the dinner table stoned, and my parents didn't even know it."

There's a parallel problem in the business world.

Managers are often unaware of signs of drug abuse in workers with whom they are in daily contact. The managers lack basic knowledge needed to recognize and deal with a growing problem in offices and factories.

Though her campaign focuses on drug abuse by young people, Reagan says she is "very aware of the drug abuse problem in the workplace. The business community pays a heavy price in absenteeism, low productivity and related problems. I encourage business leaders to join the war on drug abuse."

A number of companies have already joined the war by expanding employee assistance programs, originally set up to deal with alcoholism, to include drug and emotional problems. All three problems frequently go hand in hand.

Employee assistance programs do not themselves give treatment, but—in settings that are convenient and private—they refer employees and their families to places and programs that will help. These include hospitals' drug and alcoholism treatment facilities as well as Alcoholics Anonymous and similar programs for drug users.

Obtaining illicit drugs is often easy

today. The employee assistance programs are business' line of defense against the human, equipment and financial losses that result from the drug culture.

Dr. William Mayer, administrator of the federal Alcohol, Drug Abuse and Mental Health Administration, says at least 5,500 programs are now operating in the country—a hundredfold increase in a quarter of a century. "A large number of businesses have found that these programs really pay off," he says. "A conservative estimate of their value is a return of \$8 for every \$1 invested."

The problem of drugs or alcohol can affect every type of business. It goes beyond the occasional pot smoker or the worker who downs too many marti-

nis with lunch. Some workers sell drugs to their colleagues. Others have accidents or make costly errors because their judgment is impaired.

Drug abusers lose work time because of overindulgence off the job or the addiction of a family member.

Mayer recalls the case of a man in charge of repairing Army tanks. "Rather than supervise the repair of a damaged portion of the track," Mayer says, "he found it easier to replace the entire track assembly. After treatment for alcoholism, the man estimated that in the six months prior to his treatment, he had unnecessarily cost the government several million dollars."

George Armes, manager of the employee assistance program of Standard Oil Company of California, also emphasizes cost effectiveness. "If each year we have just five people who recover, it would justify the \$500,000-a-year program," he says, adding that the company's program usually handles a case load of 500 to 700 employees and family members a year.

Eighty percent of employees who enter the Socal program stay free from drugs and alcohol, according to Armes. "The paycheck," he says, "is a very important incentive."

Armes, who has headed Socal's program since 1978, recalls a refinery employee who was a heroin addict and had been steered to the program by his supervisor. After a year and a half in the



First Lady Nancy Reagan responds to a U.S. Chamber of Commerce salute for her work against drug abuse. Inset: The salute medal.

program, not only was he a better worker, but he also broadened his horizons. A high school dropout, the man began taking classes through the company's education program. He has now completed high school and college and is working on a master's degree.

No program works all the time. There are failures, too. However, most program directors agree that hard-hearted as it may seem, the only way to keep most people in a program is to refuse to allow dropouts to continue working.

Making employee assistance work most of the time is the aim of every director. "It is essential that top management be committed to the program if the program is to succeed," says Anne L. Pirrera, director of human resources services at John Hancock Mutual Life Insurance Company in Boston. Hancock's program, now 30 years old, has been a success because it has had that commitment, Pirrera says.

Jeanne Conway, director of employee assistance at International Telephone & Telegraph Corporation, says there is no better indication of its success than that almost nine of 10 employees helped are still with the company two years later. Conway also underlines the importance of management commitment. The ITT program, started in 1973, reaches out to all employees and their families. It uses training films for managers and supervisors, employee education films and a hot line that operates 24 hours a day, seven days a week.

CONWAY SAYS children of employees often bring their drug problems to the company staff without parental prodding because they are confident they will be assisted. Sometimes the intergenerational equation is reversed. Conway recalls a young employee who traveled a lot and was concerned about being away because his father had an alcohol problem. Through the ITT program the man's father is now in a halfway house and is learning a new trade.

In addition to the obvious benefit to employees from such a program, Conway says, "You can cut workers' com-

pensation costs 25 percent if you refer people to the program after the second safety violation."

To figure bottom-line savings, companies use slightly different methods, but most accept the estimate that at least 10 percent of the adult population has a substance abuse problem and that employees with such problems are about 25 percent less productive.

In recognition of the value of employee assistance to business—not to mention their value to the individuals helped—the U.S. Chamber of Commerce is offering a course on these pro-

First Steps to Success

If you're thinking of starting an employee assistance program at your company but wondering how to take the first step, take a few suggestions from people closely involved with such programs:

- Management involvement and commitment to the program head the list of keys to success, according to program managers.
- Confidentiality is essential.
- Employees should be invited to submit ideas and participate in planning. The program should be ex-

plained in posted notices so all employees know what help is available and how the program works.

- If a labor union operates within the company, it should be asked to cooperate.
- The directors of programs at other companies in your area will be able to steer you to community resources as well as share their experience. Both the Center for Leadership Development at the U.S. Chamber of Commerce and the Morris County, N.J., Chamber can provide guidance.

grams at its Institutes for Organization Management at the University of Delaware this August. The Delaware sessions are among several such institutes, attended by executives of trade and professional associations and of state and local chambers of commerce, at college campuses around the country.

Joseph W. Cironi, president of the Morris County Chamber of Commerce in New Jersey, set up a committee 2½ years ago to study drug and alcohol programs and develop a model.

The Morris County group has completed work on a model supervisors' guide, an implementation guide and a list of resources for Morris County. These materials will be available to chambers of commerce and to businesses that want to establish such programs. Business response has been

good, Cironi says: Representatives of 70 companies attended the group's first seminar.

EMPLOYEE DRUG PROBLEMS don't always involve illegal drugs. In a case that was difficult to pinpoint, a supervisor once recommended a young secretary for assistance because she was often half asleep at her desk and showed telltale signs of drug use. But she said she did not drink and never used street drugs. It turned out that the woman, a hypochondriac, would go to a doctor, describe her symptoms and leave with a prescription. A few days later, she would go to a second doctor and then a third, describing symptoms that stemmed from the drugs she was taking. The doctors were prescribing more drugs, and she was not discontinuing those she was already using.

Given the many ways substance abuse problems can develop and manifest themselves, managers need to develop greater awareness of the signs of trouble. Where community resources may be inadequate, Mayer says, one solution might be an industry-sponsored, professionally operated treatment facility for 24-hour or part-time care. If expenses were shared by several firms, he says, it would cost relatively little.

Like cowboys in the Western movies her husband once starred in, Nancy Reagan believes in "head-'em-off-at-the-pass" tactics in fighting drug abuse. She advocates educating children about drug dangers as part of a prevention program.

Jane Patten, personnel manager of the Leslie Company, an employee-owned heavy-equipment manufacturer in Parsippany, N.J., that is starting an employee assistance program, also emphasizes prevention. Accidents at the company are frequently serious, sometimes fatal and often result from substance abuse, she says. Through prevention and early recognition of drug and alcohol problems, the company hopes to greatly reduce injuries. "You can't ever replace what is gone," she says. □

Will the IRS Auditor Call You?

By John Hanly Adams

What are the chances that your federal tax return for 1981 will be audited by the Internal Revenue Service (beyond review for arithmetic errors)? No one can tell you precisely, but the latest tally available, for the year ended Sept. 30, 1981, may give you a hint. Of 93.1 million individuals' returns for 1980, IRS audited 1,644,104, or 1.77 percent.

Some details:

	Percent Of Returns Audited
Individuals filing nonbusiness returns, with itemized deductions, by income	
Under \$3,000	1.76%
\$3,000 to \$25,000	3.13
\$25,000 to \$50,000	3.17
\$50,000 and up	7.83
Individuals filing Schedule C (gross receipts of sole proprietors, etc.), by income	
Under \$25,000	1.42
\$25,000 to \$100,000	3.98
\$100,000 and up	7.12
Individuals filing Schedule F (farmers), by income	
Under \$25,000	1.48
\$25,000 to \$100,000	2.62
\$100,000 and up	5.80
Partnerships	1.62
Corporations, by assets	
Under \$100,000	2.60
\$100,000 to \$1 million	5.42
\$1 million to \$10 million	14.35
\$10 million to \$100 million	25.93
\$100 million and up	80.52
Gift tax returns	2.74
Estate tax returns	
Under \$300,000 gross	8.73
\$300,000 and up	34.51

Of the 1.6 million individual returns audited, 73 percent were examined at

Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific and individual cases.

IRS local offices (often by mail and telephone, though you may be required to appear); 18 percent involved field audits (you or your representative must show up at an IRS office or be interviewed in your office or home); 9 percent were audited at IRS regional service centers.

Child Support Revisited

A report in the April Tax File on deducting delinquent child support payments from parents' tax refunds gave the erroneous impression that the IRS pays refunds directly to all entitled to support payments under a joint IRS and Health and Human Services program.

Actually, such refunds are diverted only to state welfare agencies on behalf of parents receiving Aid to Families with Dependent Children. The state agency must certify each case to IRS to actuate the refund-tapping program.

In a related development, HHS issued regulations on April 14 enabling parents—whether receiving AFDC or not—to enlist HHS and IRS aid in collecting delinquent support payments through another approach.

If the past-due support amount is at least \$750, a parent can ask the state child support enforcement agency or court involved to try to collect the support owed. If that fails, the welfare agency can certify the facts to IRS, which will assign a revenue officer to collect the arrears as if it were a tax deficiency. This means that any of the delinquent parent's resources, including refunds, can be used to satisfy the child support payments due. Appeals must be made to the child support enforcement agencies, not IRS or HHS.

Vacation Retreats

A new vacation season is opening. If you own a beach or mountain retreat or other rental property, look over provisions of new laws enacted in 1981. Those regulations affect depreciation,

rentals to family members and periods of use automatically judged to be personal and thus excluded from tax benefits. Checking can save tax dollars.

Tax Return Fees

A survey by the National Society of Public Accountants shows these averages of fees for preparing federal income tax returns:

Nonitemized Form 1040	\$ 29
Itemized Form 1040	70
Partnership return	159
Corporate return	258

The survey reflects 3,400 replies to 16,000 questionnaires mailed by NSPA to its members, who include tax-service firms, public accountants and other tax-return preparers. The full report is available at \$15 a copy from NSPA, 1010 North Fairfax Street, Alexandria, Va. 22314.

New Marriage Deduction

For 1982, two-income married couples can deduct 5 percent of the first \$30,000 of the lower-earning spouse's taxable income (up to a \$1,500 maximum). In 1983 the deduction rises to 10 percent (\$3,000 maximum).

Example: If the lower-earning spouse is in the 43 percent tax bracket (taxable income of \$35,200 to \$45,800), the couple will save \$645 in 1982 and \$1,290 in 1983. But note important limits:

- The deduction applies not to combined income but only to the earned income of the spouse who earns less.

- When you figure the earnings eligible for the deduction, you cannot include any income from a pension or investments, including an annuity; individual retirement plan distributions; deferred compensation; contributions to an IRA. A married self-employed person whose spouse is not working cannot claim the deduction. But a self-employed person's net earnings can qualify for the deduction in a joint return with a working spouse. □

New Conquests For the Computer

Small firms are joining large firms in the rush to computerize.

By Willie Schatz

IN ITS TIME, the wheel was the lifeblood of the C.F. Martin & Company's sales system. When a customer called the Nazareth, Pa., guitar manufacturer for the latest account information, Sales Administrators Bobbi Minnick and Helen Hontz would reach for one of their seven Rolodexes. If Minnick and Hontz didn't have what the caller wanted, the parties would engage in telephone tag.

They no longer play that game. For almost two years now, they have been reaching for their terminals while the customer is still on the line. Their administrative colleagues have also put paper aside in favor of keyboards. So on the rare occasions when Hontz and Minnick do not have the answer at their fingertips, they put their questioner on hold and check with a co-worker. Only once or twice in all this time have they had to rummage in the archives to bring out a Rolodex from its resting place—to look up the account information on a customer from way back when.

"Computerizing has given us the ability to get information as fast as possi-

WILLIE SCHATZ is a Washington-based free-lance writer.

PHOTO: ROBERT NAKALSKI



A computer now tracks inventories, shipping schedules and orders for handmade guitars at the C.F. Martin factory in Nazareth, Pa.

ble so that we can make a decision as quickly as possible," President Frank Martin says. "Now we get answers when we want them. There's no more excuse to hem and haw. The machines have tremendously increased our rapport with the customers. We're just starting to see how much they've improved productivity. Intraoffice communication is much better. I really can't think of a single negative aspect of computerizing."

Martin is hardly alone. According to a study by Frost & Sullivan, a New York consulting group, 2.5 million businesses with less than \$10 million annual sales can cost-effectively use computers.

Frost & Sullivan predicts 25 percent of these small firms will have installed computers by the end of this year. By 1985, it says, 44 percent will have computers, and the percentage will climb to 77 by the end of the decade.

Nearly 4 million small business computers will be sold during this decade, according to the study, and more than 75 percent of those will cost less than \$10,000.

The study also shows that during the 1980s small businesses will spend \$35 billion on hard-

ware and systems software (programming that runs the hardware) and \$17 billion on applications software (programming that runs the individual programs, such as accounts receivable or production schedules).

Large companies budget about 1 percent of their gross revenues for data processing, small companies up to 2 percent.

Minimum outlay for a business microcomputer with software is \$5,000;



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Burroughs

Building on strength

Special Report

top-dollar expenditure: of \$100,000 will buy a minicomputer with several terminals.

Businesses can choose from among the products of more than 100 computer makers.

And more and more companies are making a choice.

Auth Brothers, a 100-employee meat packing company in Washington with annual sales of \$25 million, is one of them.

Its vice president and treasurer, Robert E. Watson, had been investigating computers for four years, making on-site visits and gathering information about potential systems. Watson reported his findings to President Tony Auth, the fourth-generation majority owner of the 107-year-old business.

"He said, 'It sounds good, but let's think about it in a year or two,'" Watson recalls. "I went ahead and ordered it anyway. I told him to give me a week, then say yes or no. If he said no, he could give me an hour to clear out my desk and I'd be gone. My chin was really on the grinding stone."

Auth didn't say no. He said something like yes, yes, a thousand times yes. Two years later, the company owns seven terminals, two high-speed printers and one middle-speed printer. All administrative functions are automated. Watson estimates the company has reduced its accounts receivable by \$250,000 since installing its system in July, 1979.

AT B.H. Krueger, a Fairlawn, N.J., Peoples Drug Stores subsidiary, Alan Lewis, vice president and chief financial officer, had the luxury of having to switch only five of the firm's 250 employees to computer work—and he had the time to run his new system parallel to existing manual procedures.

"People eventually abandoned the manual system on their own," reports Lewis, whose system has been on-line since April, 1981. "The changes were well received by the employees. It has been not 'his system' but 'our system.' You have to avoid at all costs running the company to satisfy the computer.



Three Martin generations: Chairman Christian Frederick III, President Frank (right) and Secretary Christian Frederick IV.

We've had everything tied to the penny from the first day. We've cut our audit fee in half and improved our shipping control tremendously. We've never looked back."

Neither has the Martin family. "I guess you could say we didn't remain the little old guitar makers from Nazareth," says Frank Martin's son, Chris. One thing is certain: Christian Friedrich Martin did not envision computer terminals in his factory. When he emigrated from Germany in 1833, his first stop was New York. Several years later he moved his family to a small community near Allentown. The family has remained there since, handcrafting guitars whose retail prices range from \$1,100 to \$3,000. Performers like Judy Collins, Bob Dylan, Paul Simon and Willie Nelson swear they are worth every penny.

C.F. Martin is the world's largest producer of handmade guitars. The company employs about 500 people worldwide. An instrument's production cycle requires about three months, yet the 100 guitar makers in the Nazareth

headquarters turn out 40 finished guitars per day. Martin also imports guitars from Japan and Korea and sells them under the Sigma name. Gross sales are approximately \$20 million a year.

Competition exists, but just barely. Martin controls 80 percent of the acoustic-guitar market in that price range.

The company is no stranger to computers. It obtained its first one in 1966. The machine, which was not equipped for terminals, was used for in-house production control and scheduling, accounting, payroll and general ledger systems. It was batch processing at its most basic.

As Martin's performance improved, the demand for information exceeded the computer's capacity to produce it. When a two-year backlog of orders played havoc with the production schedule, the end was in sight for the old system. Martin replaced it in 1972.

The change enabled the company to add programs


for stock transactions, fixed assets, depreciation, budgeting, purchasing, sales and cost analyses, and inventory control. Martin also found three outside clients for its unused computer time—providing statistics for local country clubs, and inventory and sales information for Industrial Engineering Company in nearby Easton.

But the more information Martin got, the more it wanted.

"We were having significant lags in getting information to our salesmen and customers," says James Adkins, director of computer services. "Some of the reports the sales force received were two or three weeks late. We had to get more reliable information out sooner."

"We had three goals: Get terminals into the salesmen's homes, become on-line [computerized for a working system with terminals] and develop a data base management system [dbms, an advanced method of structuring information]."

With active support from Frank Martin and Executive Vice President Hugh

A black and white photograph of two men in business suits standing in an office. The man on the left is gesturing with his hands while speaking. The man on the right is listening and also gesturing. In the background, there is a large window and a potted plant. On a desk in the foreground, there are papers, a pen holder with pens, and a small electronic device.

"If I buy my computer from a major vendor, I can't get a system tailored to my type of business."

"If I buy my computer from a small vendor, I'm in big trouble if they go out of business."

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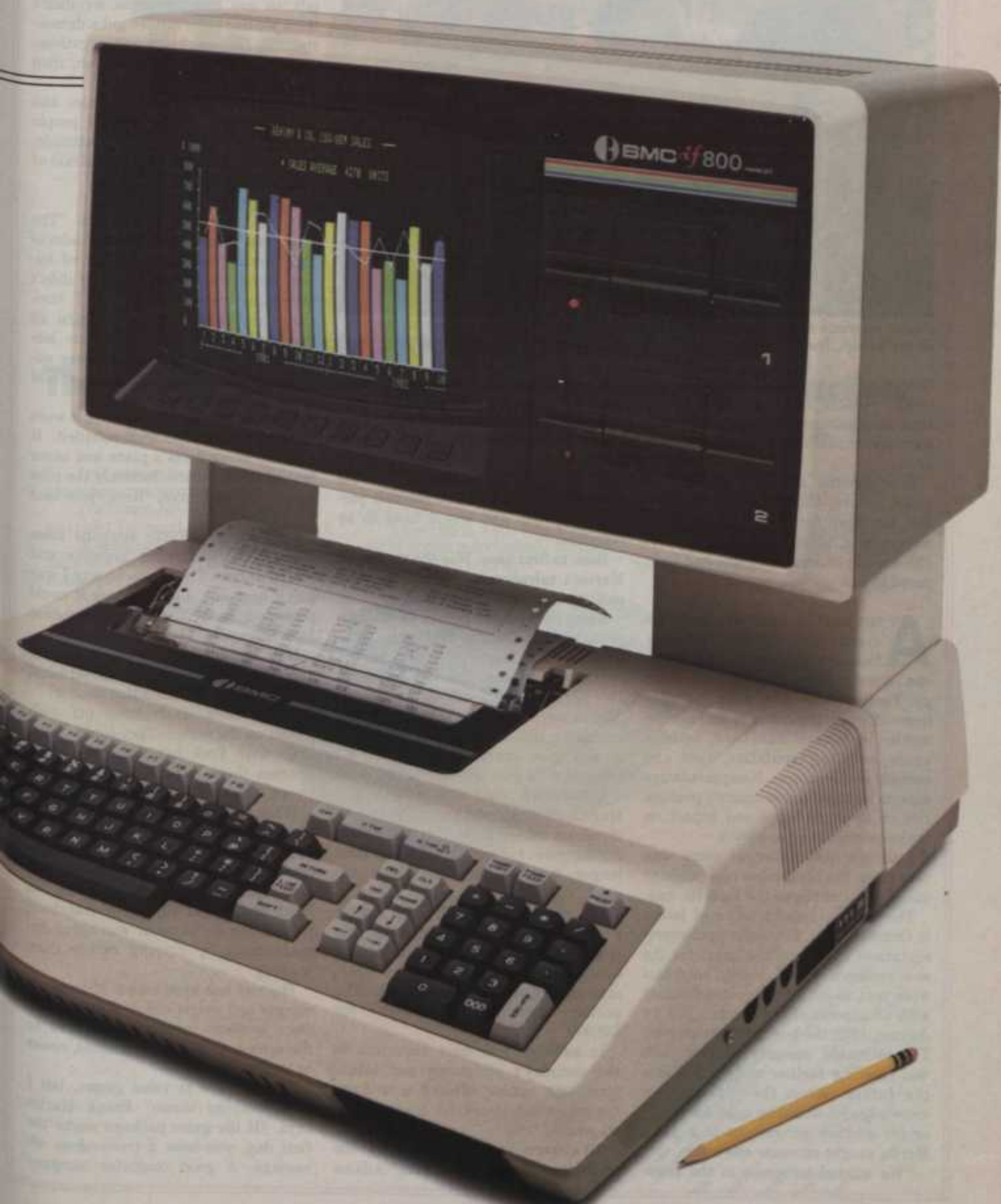


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THE BMC COMPUTERS,





How to convince workers that computers won't bite them? Let them enjoy games on the screen. The Martin firm's starter equipment was programed for play.

Bloom, Adkins started investigating potential vendors in the fall of 1978. He read voraciously and tested systems at user and manufacturer demonstration sites.

Four months after the decision to make a move, Martin's board of directors sat down for five hours to determine how it should spend its money. The list of potential suppliers had been pared to two.

AT THE BOARD'S REQUEST, one of its members, a Lehigh University business professor, had developed a weighted evaluation methodology. Factors considered were software (most of which the company had always written in-house), hardware, maintenance, service, reputation, cost and overall performance. Nonquantitative aspects included the company's position five or 10 years hence and impact on the corporation and employees.

Although the numerical score was very close, the impeccable reputation of one competitor tipped the scale its way.

The parties signed a letter of intent in October, 1978. The seller sent representatives to prepare the buyer for the new system's arrival. Martin employees were sent to school to become familiar with all aspects of the system. But by August, 1979, the honeymoon was over. The estimated one-year delivery date was receding further and further into the future. When the company acknowledged it would be unable to deliver for another six months to a year, Martin sought surcease elsewhere.

"We wanted terminals in the sales-

men's homes, and we didn't want to wait until late 1980 to do it," Adkins explains. "We didn't want another year's delay, which, for all we knew, might have been even longer. And we didn't want our people staying idle for so long. They had geared for that particular system and would have to be retrained."

Back to first base. Was the runner-up Martin's salvation, or should the company look elsewhere?

Enter Fate, in the person of computer salesman Dennis McHugh, well-known at C.F. Martin.

"Our experience with him had been 100 percent positive," Adkins says. "There were enough problems with the runner-up that we didn't want to walk in and give them an order. So we thought we'd give Denny a listen."

They liked what they heard. McHugh's client offered on-line and home terminals immediately. The data base management system would take a little longer; it will be introduced this August.

The company also offered a starter set. The configuration included one processor with 20 million bytes of storage (one byte consists of eight bits, or characters) and five smaller processors. The printer was extra. All Martin's for \$58,000.

In addition, and most important to the company's philosophy and future plans, the vendor offered a modular system, which could be upgraded in stages.

"We were very impressed by the modular nature of the system," Adkins

says. "We liked the price—\$58,000 isn't bad to get off the ground. We didn't talk to any users because we didn't think we had time. But we got a demonstration. We didn't see any negatives. We thought about it for a week, then decided to do it."

"I wanted it, and so did sales and inventory. We also knew some people would adopt a wait-and-see attitude. But I don't think anybody was afraid of losing his job."

JUST THEIR security blankets. "The idea scared me to death," admits Frank Woodrow, director of human resources management. "I didn't understand computers at all. I envisioned my people having to learn all this nonsense in some ridiculous language that none of us would ever understand. I was convinced I would never touch a screen."

"And if I was scared, my people were between frightened and petrified. It was like going up in a plane and never having flown before. Suddenly the pilot jumps out and says, 'Here, you land it.'"

Says Richard Rusk, domestic sales director, "I was really negative and scared at first. There was no way I was going near one. I didn't think it could possibly give me the same information I got on paper."

Now the dilemma. How would management convince workers the terminal would not bite the hand that used it?

No problem. Start them off with games on the screen. They could play a little Star Trek here, a little Mille-bournes there, a little Yahtzee in between. The result? Instant converts.

When the starter set arrived, it came programed with games. When potential users discovered how to play, they couldn't get enough. People battled each other early in the morning, at lunch and late at night. The transition from paper to terminal was aided immeasurably by playing rather than working.

The rest was even easier. Most paper reports and charts simply disappeared. Once workers became accustomed to the screen, their paper vanished, never to be seen again.

"I'm terrible at video games, but I loved playing them," Frank Martin says. "If the game package works the first day, you have a tremendous advantage. A good computer company

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Special Report

makes absolutely sure the system works the first week. That doesn't mean it works perfectly the first time. Anyone who thinks that is crazy. But knowing that the machines will have some problems gives you a head start.

"And you have to take away the paper, or they don't use the machines. You can always give it back later. If people have been doing the same thing for 25 years, any kind of change is going to be somewhat traumatic if for no other reason than that it's new. You're asking them to rearrange their attitude, and sometimes that has to be force-fed a little."

At C.F. Martin, there has been no need for force-feeding. Its system has been expanded steadily from the starter set.

THE FIVE original smaller processors have been converted to word processing and program development functions. The company has added three more processors.

Attached to them are 20 in-house terminals and nine terminals in salesmen's homes. The first terminal was installed in November, 1980, and the last in December, 1981. Two removable disk drive packs allow virtually unlimited storage space.

Hard copy—paper records—may be passé but not extinct. To produce it, Martin uses a 160-characters-per-second matrix printer, a 300-lines-per-minute band printer and a 45-characters-per-second daisy wheel printer.

Also available is a 17-pages-per-min-

ute laser printer, which is on-line to the computer.

Applications cover the entire range of the company's business. Helen Hontz and Bobbi Minnick can request as many as nine subsets from their 10-item master menu. On the factory floor, order, inventory and shipping schedules are tracked. Frank Woodrow swears he can process in five minutes payroll computations that formerly consumed four days. The company now self-administers its benefits package at annual savings of \$6,000.

Outside clients have almost tripled and now include the Continental Basketball Association, a farm system for the National Basketball Association. Having conquered the statistical minutiae of the CBA, James Adkins dreams of performing a similar feat for the NBA.

Despite those positive aspects, the company did encounter some negatives along the journey. The system does break down and occasionally makes a user wait longer than he thinks he should, though such events are generally accepted as part of the package.

Nor has the conversion been cheap. The company has shelled out \$240,000 (\$110,000 for hardware, \$130,000 for software) in two years. But Frank Martin determined early not to be penny-wise and computer-foolish.

"I never had any qualms about doing this," he says. "It requires adjustment on everybody's part, but there's no question that it has been worth it. We are just now beginning to see how

much it has meant to our productivity.

"You have to be prepared to be in a state of flux for a while. And you have to make sure the data processing people don't try to tell the users what they should have. There has to be communication between those groups. The department manager doesn't always know what his people want. You have to talk with the people below, and many companies don't do that. We try to make sure we do.

"Your system runs only as well as the people running it allow it to operate. Ours is terrific and has helped us maintain our competitive edge. We are not likely to make changes for four or five years."

Adkins concedes that he is "pretty surprised we've gotten where we are so fast. We've achieved two of our goals. The salesmen have terminals at home, and we have become on-line. I thought that would take us until the end of this year.

"And we'll have the data base management system in August, which means we'll be fully automated. All along I've tried to remember that the absolutely worst thing you can do is force the computer down the user's throat."

AT C.F. Martin & Company they seem to have no trouble swallowing. "I've done a complete 180," Frank Woodrow says. "We got support at the top. They forced us to get involved, and that was very important. Now I know exactly what the computer can do for me. I have no qualms about undertaking the most complex of concepts. I never felt that confident before."

Says Hontz, "When Jim first told us we were going to get terminals, I didn't want them. I was used to the old system. I didn't trust the computer and was uneasy about depending on it. At first, when we couldn't get what we wanted, we'd sneak a look at the wheel."

Adds her colleague Minnick: "Now we deal with customers much easier and faster. There are some delays now and then, but the new system is tremendously responsive. I don't want anybody touching my screen. And I don't miss the Rolodex cards one bit. "We've made the wheel obsolete."

No one at Martin seems to be mourning its demise. □



For the past two years, Bobbi Minnick (left) and Helen Hontz have been reaching for terminals rather than Rolodexes when customers call about guitar orders.

Wang announces the most important step in managing information since the computer. WangNet.

Business people have an unlimited appetite for information. Which explains the dazzling array of office equipment being created to handle it. And WangNet lets you

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How a Computer Can Help Your Business

By Stanley S. Veit

COMPUTERS are designed to do three kinds of work. First, they can store information and retrieve it on command. Second, they can perform mathematical operations and logical comparisons with great speed and accuracy. Third, they can communicate with the outside world through connection to data-acquisition and display devices and devices that control electrical equipment.

Most of the paper work connected with a business falls into the category of calculation and record keeping; therefore, the computer has become a necessary business tool. A computer can eliminate the dull and routine record keeping that takes so much time.

The computer frees management people to deal with the exceptional problems and to manage the main business of the firm. It also frees valuable workers from paper work and permits them to accomplish productive tasks. Sales and stock personnel are kept aware of inventory levels and price changes, permitting fast reaction to changing market conditions.

Probably the most important tasks a computer can perform in any type of business are to get out the invoices and statements on time, report on unpaid accounts and keep track of cash flow.

In a professional practice, a computer also frees the professional from the ever-increasing load of paper work. It helps collect the bills, especially the ones involving insurance companies and government agencies that require endless forms.

Computers in factories control manufacturing processes, monitor production quality, count production quantities and report malfunctions. In engineering departments, they keep track of parts, specifications and bills of materials.

The record-keeping, information-retrieval and electrical-control capabilities of the computer formerly were available to business people only after a large investment in equipment and per-

sonnel. The alternative answer to capital investment was the substantial rental or service charge of a time-sharing company or service bureau.

The microcomputer, with its low initial investment and upkeep, is bringing the advantages of computerization to all levels of business. Many departments in large businesses have not previously used computers because the additional work would have exceeded the capacity of the existing computer installation. They can now use one or more microcomputers to computerize the operations within a single department.

Microcomputers can serve as data-collection stations within a distributed processing network, which is a group of computers or intelligent terminals (terminals that have some computer functions) remotely connected to a large mainframe computer. In this application, microcomputers do the initial data processing at the local station, and the preprocessed information is transmitted to the large mainframe computer, where it is integrated into the main programs. This process is referred to as a distributed processing network.

Microcomputers can also be used by the thousands of small business organizations that have not had the capital to afford a computer or time sharing.

Even the simplest "personal computers" can be used in business to accomplish repetitious calculations and to display the results. Tasks such as the calculation of mortgage payments, loan payments, interest, rate of return on investment, tax payments and sales commissions can be programed in a computer language such as the one called BASIC (Beginners All-purpose Symbolic Instruction Code) in a simple computer. In fact, any calculations using a fixed formula and variable terms can be computerized with the aid of a simple microcomputer. It is true that such calculations can be done on a programmable hand-held calculator, but the computer permits loading the program from a cassette, having the pro-

gram request input of the data from the screen and outputting to a printer.

A computer permits the user to re-enter new terms and recalculate results at any time. The program can be changed and stored on cassette at any time. If a disk is used for storage, the results may also be saved.

Many of the operations in business involve the use of lists. Price lists, parts lists, vendor lists, customer lists, mailing lists and so forth are the standard reference materials of business.

Even the simplest microcomputers are ideal for this purpose. Most of the "personal computers" use a form of BASIC that has the ability to form lists and to update and correct them. The addition of a simple printer multiplies the utility of a small computer system for list keeping and output.

Inventory control is another of the crucial functions a computer system performs.

NEXT to its cash position, the most important information any business needs is the inventory status at any time. It is these data that may determine the difference between the success and failure of a business. In spite of this, up-to-date inventory is the most difficult information for the business person to obtain.

Most businesses take inventory twice a year, relying on "spot checks" and "perpetual inventories" that are never up-to-date. Even firms that have computerized this function through the use of a computer service bureau are always using information that is at least several weeks old.

The microcomputer can provide current information on the status of inventory through implementation of a real perpetual inventory system.

Many businessmen have investigated the possibility of using microcomputer-based inventory systems and have rejected the idea because they found that the data-storage capacity available for microcomputers was not large enough

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to carry the inventory they felt the business required. The result was rejection of the whole idea. They could not obtain (or afford) the amount of data storage they wanted, so they ended up with nothing.

Other businesses looked at this problem from a different angle. They reduced the amount of information that the inventory program had to store until it fit into the available data storage

(for instance, floppy disks). The result was an inventory program that told them what was on hand, where it was, how much it cost, when it had been received and who the vendor was.

This limited inventory program proved to be of such value to the firm that the storage capacity was extended to provide some of the "frosting on the cake" that had been eliminated in the interest of being able to afford the ini-

tial investment for the computer system.

Software systems are used in individual professional practices and by groups of doctors, dentists, lawyers, engineers and all other professionals who conduct their own business. Today, with so many of the professional fees being paid by third parties, such as insurance companies and government agencies, computerized accounting has almost become a necessary part of the practice.

IN ADDITION TO the standard accounting system programs, medical offices have many unique requirements. Admission and patient history must be taken when a new patient is admitted.

This standard record becomes the basis for much of the office procedures and reports. Charge and payment entries and the medical record are derived from this original entry. In a computerized system, the admission and medical history form appears on the video terminal screen. The person who interviews the patient fills in the form from the terminal keyboard. Henceforth, all the patient's records are in the system and can be extracted for future reports and records.

Coordinating the doctors' daily calendars and patient appointments is another computerized function. The computer system can permit access to this information from more than one terminal so that both the doctor and his staff can coordinate their schedules.

All of the doctors' requirements apply to dentists plus some other unique requirements, such as manufacturing control of dentures and inventory of precious metals used in the practice. The dentist is not only a medical practitioner but a specialist in technology. Computerization of his practice frees him to keep up with the latest techniques.

Word processing has a special application in legal work, making the pre-printed legal form a thing of the past. Today, the stock legal form is in the computer, and it can be customized to fit any special requirement with a few minutes of effort. The result is a type-written legal form that looks like it was produced by a human typist. □

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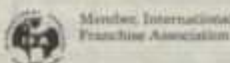
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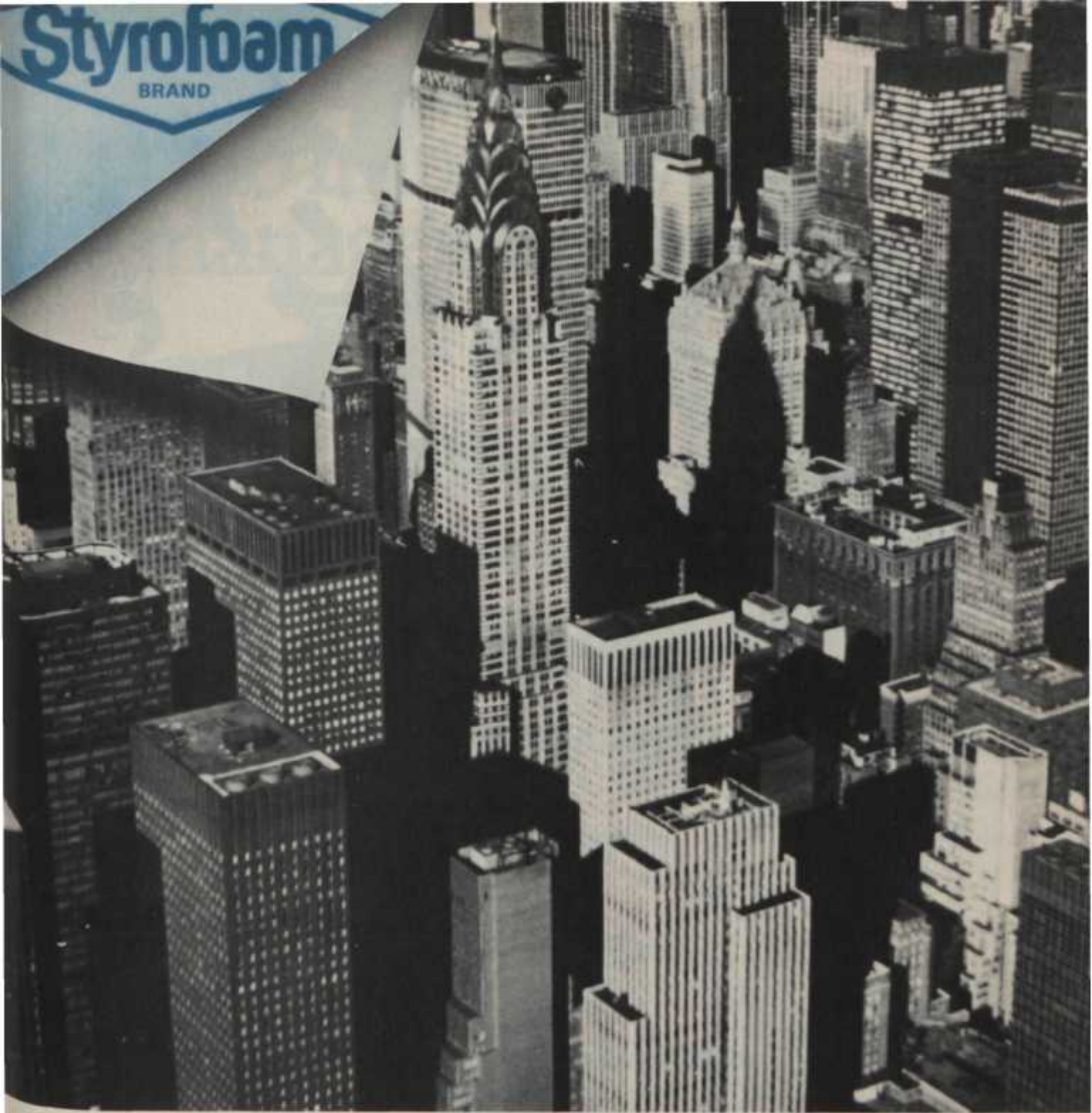
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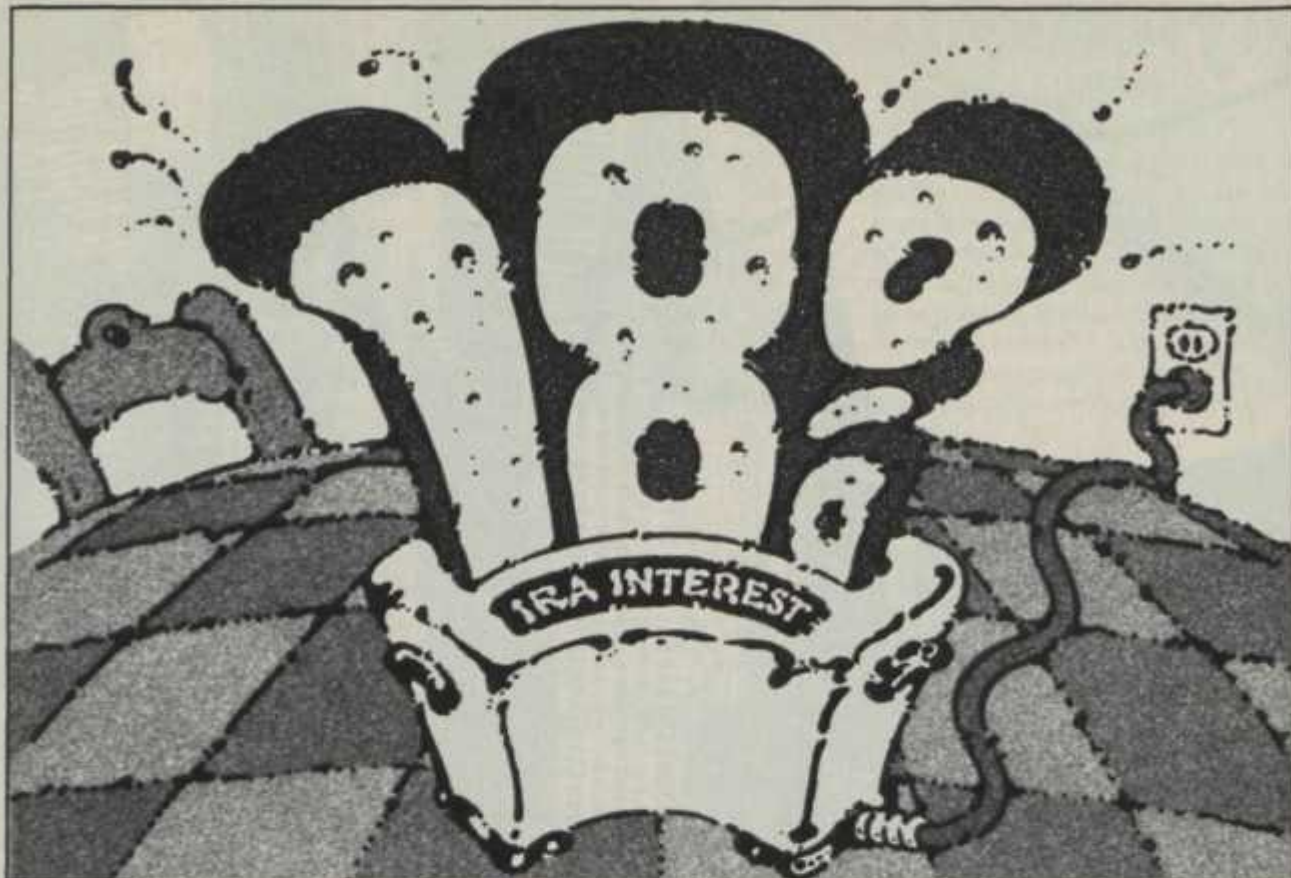
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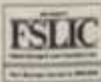
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PEOPLE IN BUSINESS

Ideas Are Diamonds In the Rough

Keeping his eyes and ears open has helped Erwin Pearl "get some of my best designs," he says.

Pearl came to the U.S. in 1940 from his native Austria at age 12 to escape Nazi persecution; the rest of his family never got out. An uncle in New York City took him in, but when Pearl was 15, the uncle died, leaving him on his own.

He found work with a diamond cutter and learned the trade. But at 18, he decided to try his hand at selling jewelry for a wholesaler. "I could see that no matter how good a diamond cutter you were, you could never make a lot of money," says Pearl.

He designed some jewelry and showed the designs to his employer. The wholesaler wasn't interested in producing jewelry himself, but he decided Pearl was talented. He lent him \$2,000 to start a small manufacturing operation.

At age 20, Pearl launched Erwin Pearl, Inc., and soon was selling origi-

nal rings and other jewelry to Tiffany & Company, Van Cleef & Arpels and similar retailers. Seven years later he opened his own Manhattan store. Other New York-area stores followed.

In the late '60s, Pearl says, "I saw a greater opportunity in jewelry that would have mass appeal." He phased out his stores and began making gold chains. These could be sold retail and to other companies for use with pendants.

Watching people, he came up with another idea for a design. "One day," says Pearl, "I was at a business meeting, and at one point, everyone put his pen down on the table. I was amazed. All the pens were alike. I began thinking there was a definite market for a good pen that looked distinctive."

Thinking of pens as accessories rather than merely writing instruments, Pearl decided to use colored enamel over brass. He also decided to introduce them in men's sections of stores instead of stationery departments. The pens sold well.

"One day a friend complained about how he always misplaced either his pen or his pencil, and that got me thinking about making a combination," Pearl says. So he developed a ballpoint pen that can be turned into a pencil with one twist.

His line now includes ultraslim pens and automatic pencils, ballpoint and fountain pens, lighters the size and shape of a cigarette, cigarette cases and key chains that are color-coordinat-

ed with some of the pens. The pens, produced for Pearl in Japan, sell well not only in the U.S. but also in Canada, Venezuela, South Africa, Spain and Switzerland.

Pearl, whose company's sales now exceed \$10 million annually, spends a lot of time traveling. He is also working on new ideas—the results of conversations with other travelers.

Dreamboats Set Sail for Fantasy

Mary T. Crowley's business—for her a dream come true—is making the dreams of others come true. Crowley, 34, operates Ocean Voyages, a company that has contracts with skippers and their sailing ships around the world and can book almost any sailing adventure a client has in mind.

One could say she started preparing for this career early in life. At the age of 4 she was sailing in small boats with her father and grandfather on Lake Michigan near their Chicago home. By the age of 8 she was off on her own in her 12-foot dinghy. "I was very interested in long-distance sailing," she says. "I read every book in the library about round-the-world voyages."

As a youngster Crowley considered following her father into law or possibly teaching. But then in 1968 she moved to Sausalito, Calif., to study oceanography. The view from her window overlooking San Francisco Bay brought back fantasies of ocean passages.

She soon joined a group of people who delivered boats from one harbor to another for the owners. "If, for instance, someone bought a boat in Florida and wanted it brought to San Francisco, we'd deliver it," says Crowley. "That group taught me a great deal about sailing."

Later she worked as a teacher for a New York school that ran nine-month ocean study trips on a ship based in Tahiti. She also organized voyages for the San Francisco Oceanic Society. In 1979 Crowley started her own sea travel business, Ocean Voyages, with a 70-foot schooner whose owner wanted to use it to teach sailing and for scientific expeditions. The owner, like many others, had become acquainted with Crow-



Erwin Pearl displays some of his designer pens. He says that their touch of color and originality will add pizzazz to the workplace.



Mary T. Crowley takes the helm of a sailboat on an Ocean Voyages cruise.

ley on one of her sailing trips. "Boats come to us," says Crowley, who frequently gets offers of vessels and now has more than 50 boats available for charter.

Her company, however, does not offer the usual charter. The aim is a sailing adventure tailored to the customer. It is not a sailing course, but passengers are encouraged to participate in all aspects of the sail and can learn as much as they want. It is not a scientific expedition, but naturalists accompany many expeditions and some boat captains are experts in such areas as the Galapagos Islands. There is ample opportunity to learn and also freedom to loaf.

"Our boat captains don't charter for us just for the money," says Crowley. "They love working with people. That's what makes it a success. Most people who sail with us want to get involved."

The shortest voyage is a day-sail around San Francisco Bay, which costs \$50 per person for a party of four or more. The average sail runs from two to three weeks at a per-person cost of \$75 to \$100 a day, all-inclusive. However, if a corporation, marine research group or vacationing family wants a months-long round-the-world sail, that, too, can be arranged. A luxury trip for

groups that do not wish to participate in handling the boat can cost as much as \$300 a day per person.

Although it took until 1981 for the company to start showing a profit, Crowley sees some clear sailing ahead and expects to double her business in 1982. "People are still taking vacations despite the economy," she says. "Recently I've noticed that more people are deciding on the spur of the moment, and fortunately we can handle that."

Getting Art Into The Right Frame

About the time David Klitzky planned to open a greeting card store in Chicago in 1971, a group of his artist and art collector friends discussed at a party how expensive it had become to have pictures framed. Klitzky, whose penchant for carpentry already had him making custom bookcases, thought he might be able to do something about the problem.

He set aside a little more than a quarter of the card store for a do-it-yourself frame shop. "When I went to a supplier to buy molding for frames," says Klitzky, "the salesman told me I would never make it."

However, the picture-framing business boomed while card sales languished. Klitzky got out of greeting

cards and enlarged Great Frame Up Systems, Inc.

A customer brings in whatever item is to be framed and selects mat and molding. "We started with about 75 patterns of molding," Klitzky says. "Now we carry about 260. We compete with the custom framer, and we've done well."

Employees cut the molding, mat and glass for the customer, who does the rest of the job himself at a specially designed and patented work table in the store. Assistance and guidance are always available.

"Some people approach it as work," Klitzky says, "but most seem to enjoy themselves, and for many who come frequently, it is a social occasion." He estimates the average sale is about \$32.

A general shift in America toward doing-it-yourself made franchising his successful venture appealing. "It took us about a year to get all the legal work done to start franchising," he says. The first franchise opened in 1975. Now there are nearly 50 throughout the country.

All stores are supplied from a central warehouse outside Chicago, and Klitzky is working on a computer network that will link the entire system.

Although Klitzky, 36, has many competitors copying his idea of do-it-yourself framing, his company's sales totaled \$5.4 million last year. He sees plenty of growth ahead. □

PHOTO OWIS PHOTO STUDIO



David Klitzky places a new print among the many that decorate the walls in his framing centers, which cater to the do-it-yourselfer.

Prestige For American Porcelain

HELEN BOEHM, 59, sole owner of Edward Marshall Boehm, Inc., maker of fine porcelain and porcelain sculptures, has come a long way since the days when she was a traveling saleswoman carrying her wares in a cardboard suitcase.

Born Helen Francesca Stefanie Franzolin, youngest of seven children in an Italian immigrant family in Brooklyn, she studied to be an ophthalmic dispenser and found her first job in Manhattan. She stayed on the job after her 1944 marriage to Edward Marshall Boehm (pronounced beam), whom she saw sculpting while she was visiting a relative at a convalescent center.

Ed Boehm, stationed at the center as an Air Force private, became a veterinarian's assistant after World War II and in his spare time continued to sculpt wildlife in porcelain at his farm near Trenton, N.J. He bred exotic birds, which were often his models, and horses. Then, with a \$1,000 investment, he turned his art into a business.

Helen Boehm became his part-time sales representative. At first she would visit gift shops and art galleries in New York City during her lunch hours, trying to find retailers to handle the sculptures. It was an uphill struggle.

Then she tried selling outside New York. "I used to carry the pieces to stores wrapped in a quilt inside an old cardboard suitcase," she recalls. "I always took one-day trips so I wouldn't have to pay for a room overnight, and I usually traveled by bus." Sales were still few and far between.

In January, 1951, Boehm persuaded New York's Metropolitan Museum of Art to take two porcelain sculptures—a Percheron stallion and a Hereford bull—and she made sure the *New York Times* knew about it. After the story appeared, she offered President Dwight Eisenhower a Boehm piece. At



Helen Boehm and an artist discuss the floral design used for the Reagan family china pattern. Inset: a Boehm wood duck.

last, she wrote to him, an American porcelain maker had been recognized by the Metropolitan. Until then, porcelain that drew oohs and ahs from art lovers had come from abroad.

Eisenhower, who had Hereford cattle on his farm, was impressed by the porcelain Hereford bull and asked for a figurine of Britain's Prince Philip on a polo pony for Queen Elizabeth.

Boehm made wide use of her Met and White House connections in her selling, which turned into a full-time job that kept her on the road 10 months a year. The porcelain flowers and animals became popular official gifts to heads of state, and retailers showed interest.

The future looked bright.

In 1969, at age 56, Ed Boehm died, and Helen Boehm had to decide what to do with the company. She not only kept it but expanded the operation in New Jersey and opened a studio in Malvern, England.

The English studio specializes in bone china flowers. The one in New Jersey works with hard-paste porcelain.

For both forms, a sculpture begins with a sketch. A clay model is developed and designed for beauty and for durability during firing. The time-consuming task of making molds comes next. Casts are then taken, fine details are carved in, and numerous delicate clay parts are assembled by hand be-

fore firing. Hand painting and additional firings anneal the colors.

Prices range from \$18 for a dessert plate to \$35,000 for the limited-edition "Prince Rudolph's Bird of Paradise."

When President Nixon visited China in 1972, he gave Chairman Mao Tse-tung a large Boehm sculpture of swans titled "Birds of Peace." Says Boehm, "I was told the birds were so lifelike that Chairman Mao turned to an aide and asked, 'Why is President Nixon bringing

me stuffed swans?'"

More recently, she produced a replica of nosegays from the wedding of Prince Charles and Lady Diana, at which she was a guest (she met the prince when he visited the Malvern studio).

BOEHM is also producing china with a mixed floral pattern, designed with Nancy Reagan's help, that she hopes will become the White House family service. The cost—which the Reagans will pay if they accept the china—is about \$200 for each of 24 nine-piece place settings. "A White House china is a great honor," says Boehm.

The company now has 450 employees, 18 of them working on original designs. "It's a wonderful family," Boehm says. "The artists come from many countries." Annual sales are now at the \$35 million level, according to an outside estimate.

But Helen Boehm, who has no children, works just as hard as she did in the early days. Although she devotes time to many charities, she keeps an eye on both studios and a New York showroom, approves all new designs and plans for new successes.

"It's a responsibility," she says. "When I think of my employees and their families, I realize I have 1,500 mouths to feed. I dare not fail."

—Mary Tuthill

BUSINESS LIFE-STYLE

The Lure Of Fly Casting

By John Costello

"Glory be to God for dappled things . . .

"For rose-moles all in stipple upon trout that swim . . ."

—Gerard Manley Hopkins

That reverent tribute of the 19th-century poet is one to which all fly-fishermen—oh, disregard a few grumpy agnostics—would shout a loud "Amen!" For to most flycasters,

PHOTO: K. VALENTINE ATANSON—F.S.S.



Flies have many sources, including . . .



... rooster hackles (left) and deer hair (above).



PHOTO: TAMARA WILSON—BLACK STAR

There is no greater goal for the fly-fisherman than to make a graceful cast, no matter the type of fish he seeks.

trout are what it's all about. Not always to hook and cook, tasty though trout are, but sometimes merely to catch and release.

Sound dumb?

NOT TO FLY-RODDERS. To them, the pleasure of their pursuit can lie in a realm less tangible than the catch. Rewards that are psychic, aesthetic or scenic—the thrill of a graceful cast, the sight of a fly well placed on the dimpled water, the sound of a rushing, rocky mountain creek, the glimmering sheen of a placid mountain stream.

Dick Lange would say so.

Wild horses couldn't drag some people from the world outside the windows of his Marina del Rey apartment, which look out across the sheltered harbor to the sea. The view, always spectacular, is almost homey at dusk. As the sun flames out in the blue Pacific, the sailboats and cabin cruisers scurry back from the darkening waters to the safe shelter of their marina slips.

But Lange will happily leave this seaside idyll at the drop of a tackle box for trout haunts in Henry's Fork of the Snake River in West Yellowstone, Mont., or Hot Creek in the high Sierra.

"I grew up in the Midwest, in Rockford, Ill.," he says, "and my father was really into fishing. Our typical summer vacation was spending a week at one of the lakes in Minneso-

ta or Wisconsin, fishing for walleye and bass.

"That's where I discovered the pleasure of being able to go out with your family or friends and enjoy the sport. But I didn't learn fly casting until I went to work at Hughes Aircraft out here in California."

There is a difference between fly casting and plain old fishing. Something like the difference between throwing a feather and throwing a rock. In other forms of fishing, at the end of your line you have a weight, heavy bait, or a metal spoon or spinner.

With your fishing rod, you whip the weight out over the water. It pulls the line behind it.

In fly-fishing, at the end of your line is a light lure—an artificial fly or bug, some not much bigger than the head of a match. When you cast, the line pulls the lure behind it.

The goal is the same. Get the fish to bite. But the techniques are poles apart.

What does Lange get out of his hobby—fellowship, challenge or wet feet?

"A lot of the last," he says. "I'll try my damndest to get to the right spot, even if I get soaked. But it's a little of all three."

And something more, for the 33-year-old angler.

"Take Henry's Fork," he says. "It has a kind of gravelly bottom, with lots of weed growth and very slow moving water, and it's easy to wade."

"You can go out there in the evening, and the water will be almost like a mirror. I've fished the Fork late in the evening for the Brown Drake hatch, and it will look like a river the width of a football field. That wide! And all across it you see these little pockmarks that look like popcorn hitting the water. That's where all the fish are coming up and taking insects off the surface of the stream."

He sighs. "Memories," he says.

How many Americans are out there in hip boots, wading cold-water streams, clutching

A good bet: This lad will still be a flycaster when he grows up. The fish is a 7½-pound steelhead trout.



PHOTO: DOUG WILSON—BLACK STAR

their fly rods, wearing those weird hats where they park their grotesque or gaudy artificial nymphs or flies?

"About 6 million," says Mark Kuipers, marketing development coordinator, Scientific Anglers/3M, St. Paul, "about 1 million of them really serious anglers."

Some 60,000 are members of the sport-promoting Federation of Fly Fishers, West Yellowstone, Mont.

"Fly fishermen spend \$125 million to \$150 million a year on equipment," Kuipers says, "rods, reels, lines, waders and other gear. But it's not expensive. Glass rods run \$45 to \$70; graphite, \$135 to \$200; split bamboo, \$350 to \$1,000. Reels are \$30 to \$120 and tapered fly lines, \$15 to \$35. That's all good beginner's equipment that will last for years."

"So you can get started for about \$125 to \$175. And that may be one of the reasons the sport has been growing so fast—15 to 25 percent a year."

Nine of 10 fish for trout, *Fishing Tackle Trade News* says, but six of 10 also try out their fly rods on bass, panfish and other warmwater fish.

BILL HECKEL, 47, spends as much time in the basement of his home as he does in trout streams. There he has his library—150 volumes on fly casting—plus an old drafting board, a vise, pliers, bodkin needles, lead wire, hooks, thread, and an exotic collection of gamecock neck feathers, rooster saddle patches, muskrat fur, African goat hair and tinsel. For he's a flytier as well as a flycaster.

"The interesting thing about fly tying is not how much stuff you need but the variety," explains the Aurora, Ill., angler, an executive with Prisco, Duffy & Associates Ltd., architects. "The color of the bugs changes from one part of the country to the other, sometimes even from stream to stream. And we try to imitate nature."

"I used to do a lot of duck hunting and quail shooting, but I've more or less given that up. I find fly-fishing more enjoyable because I don't have to kill what I catch. Hunting doesn't give you that option."

"If you bag a duck, you can't throw it back."

He loves to climb into his two-seater sports car and head for a trout stream like the Au Sable River in Michigan.

"But," he says, "you can't fish all year long. That's how I got into fly tying about 20 years ago. This sport goes back a long way, at least to the Bronze Age in China. And there's an

extensive literature on fly-fishing and fly tying. So when you can't fish, you can read about fly casting, tie flies or teach fly tying."

"I do all three."

"That's why, of all the different things I've dabbled in, I settled down to this one."

Cynthia Boomhower's 6,000-acre spread in Cameron, Mont., has several hundred head of cattle, 18 to 20 dude ranchers and trout galore.

"The trout are one of the reasons I bought it," says Boomhower. "It's in the heart of the best trout country in the West, a fly-fisherman's paradise. Now I grew up on Long Island, and I had spin-cast bait and plugs since I was a little girl, almost 60 years ago. However, I wasn't a flycaster."

"But I soon learned because that's the best way to enjoy catching trout. Not learning would be like going to a

“Someone once said it isn't that fishing is so important. It's just that all other pursuits of man are so trivial.”

four-star French restaurant and being unable to order lunch."

Boomhower, a past president of the Women's International Fishing Association, Palm Beach, is modest about her self-taught skill.

"I'm not the world's most artistic fly-fisher," she says, "but I hold up my end pretty well. Some people who cast perfectly elegant put their casts in all the wrong places."

"Not me. The catching part is what I'm good at. I know where the trout are. I guess I can think like a fish."

The pleasure she gets out of fly-fishing is aesthetic and pulse pounding.

"The biggest thing to me," she explains, "is the strike. When the fish strikes, it's beautiful, especially when he comes up to the top of the water to take a dry, floating fly."

"You can see the whole thing. It's good for the ego—and it's exciting."

Come spring, fly-fisherman Gardner L. Grant, 55, likes to head for Florida Bay. "It lies between the Keys and the Gulf of Mexico," he says. "It's really a tremendous, shallow body of salt wa-

ter. You can be 20 miles offshore and in water no more than 6 feet deep."

"You're west of the Keys, which protect you from the Atlantic, and there's almost no surf. It's a great place to fish for tarpon."

TARPON? With a 6- or 7-ounce rod and artificial flies? "Sure," says Grant, president of Gardner L. Grant Company, a White Plains, N.Y., real estate investment and management firm. "I've caught many saltwater species that way—bonefish, jack crevalle, permit, snapper, bluefish and small tuna. In fact, I've caught tarpon up to 150 pounds on flies—tarpon streamers, wet flies made of soft chicken hackles."

"A tarpon will often take a 2½-inch or 3-inch fly in preference to a nice, big live mullet or a great handsome shrimp or even a crab."

Why would a tarpon prefer a mouthful of chicken feathers to a juicy mullet, a tasty shrimp or a gourmet tidbit like crab? Is he sick and tired of a seafood diet? Or just nearsighted, color-blind or dumb?

"Nobody knows," Grant says. "That's one of the mysteries of a fascinating sport that keep us coming back for more."

"I do both, but saltwater fly-fishing is different from angling for trout. There we use flies that represent the insects trout feed on. But the tarpon fly, for example, there's nothing in nature that looks like it."

"And there's a tremendous difference in the casting. Unlike swimmers doing laps, trout don't travel up and down a stream."

"They find a spot they like and hang around there. So you have lots of time to pick your place and get ready for your cast. But in salt water, you're after a game fish that's chasing smaller fry. So as soon as you see that striped bass, tuna or tarpon, you have to get your fly in front of him pronto, where it's visible. Ten seconds later, your fish is gone."

A director of Trout Unlimited, which promotes fly casting and conservation, and a past president of the Fly Fishers' Federation, Grant loves both—freshwater fishing and saltwater.

And he knows just why. "Someone once said it isn't that fishing is so important. It's just that all other pursuits of man are so trivial."

"But best of all, fly-fishing attracts the kind of people I like to be around—interesting, intelligent, sensitive people."

"And to me, that's important." □

Taxing Credibility

THE ECONOMIC RECOVERY that is slowly taking hold will get a major boost next month from the first sizable installment of the personal income tax cut. The 10 percent reduction in rates—added to the earlier 5 percent—will increase consumer disposable income at an annual rate of \$37 billion and fuel the turnaround.

As the recovery accelerates, federal revenues will rise. And as revenues rise, the deficit forecasts will be revised downward as quickly as they were revised upward during the recession.

Recent history proves that tax cuts are an economic stimulant and that a rebounding economy generates revenues that shrink deficits.

Congress should now be considering ways to prolong the emerging recovery. Instead, like generals preparing to fight the last war, the legislators are debating how to cure a recession that is already ebbing. Worse, the debate keeps focusing on tax increases.

The rationalization for the tax increases is

that they are necessary to bring down the deficit, which has been keeping interest rates up, which has been hurting business. However, most of the proposed tax increases would also hurt business, either directly or by reducing consumer purchasing power.

If it is inflation that has been keeping interest rates up, then they will soon follow it down. If it is the deficit that is keeping them up, they will come down along with the deficit, as part of the recovery process. And if something else is keeping rates up, what is it, and what is the evidence that it will be cured by raising taxes?

The real reason for proposing tax increases is political, not economic. It distracts attention from the logical alternative to reducing federal deficits: cutting spending. Many members of Congress apparently fear the anger of those who benefit from federal programs more than they fear the anger of the taxpayers. They need to hear from more taxpayers. □

Money at Work

THE RICH REWARDS that can be gained from compounding the return on an investment, tax-free, are an old story.

Ben Franklin, for example, was well aware of them. He left \$4,500 to Boston and specified that interest earned was to accumulate. In 1894, a century after the city got the bequest, the fund had grown to \$432,000, and most of the money, per Franklin's will, was used for the public good. The remaining \$102,000, again per Franklin's will, is compounding for an extra century. (Loans are being made at modest interest rates to medical students.) That \$102,000 has now become \$3.5 million.

Today America has an important new vehicle for tax-free compounding—the Individual Retirement Account.

Nobody who has an IRA will enjoy a century

of compounding. But the compounding is tax-free until retirement, and the rewards will be ample, though they could be substantially reduced by inflation.

A 35-year-old in the 40 percent tax bracket who puts \$2,000 into an IRA for 30 years and averages a 10 percent return will wind up with \$329,000—some \$234,000 more than if he paid tax and invested what was left without tax-free compounding. At 15 percent, the comparable figures would be \$869,000 and \$706,000. At 5 percent, they would be \$133,000 and \$76,000.

The IRA program will reward the nation, too (see page 49). Capital is needed to expand, improve and create enterprises—and thereby increase productivity and employment. IRAs will supply much of that capital. Ben Franklin would approve. □

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